

JPRS-CAR-92-065  
25 AUGUST 1992



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

**DISTRIBUTION STATEMENT A**

Approved for public release  
Distribution Unlimited

# **China**

19980129 149

**DTIC QUALITY INSPECTED 2**

# China

JPRS-CAR-92-065

## CONTENTS

25 August 1992

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Price Structure: Current Status, Problems, Prospects [CAIMAO JINGJI 11 May] ..... 1

#### FINANCE, BANKING

Stock Markets in Perspective [Hong Kong MING PAO YUE-KAN Jul] ..... 8

#### FOREIGN TRADE, INVESTMENT

North American, Oceanian Countries Imports Jan-June [CEI Database] ..... 15  
Import From Non-EC, Non-EFTA Countries Jan-June [CEI Database] ..... 16  
Import From EFTA Countries Jan-June [CEI Database] ..... 16  
Exports to EC Countries Jan-Jun [CEI Database] ..... 16  
Exports to Non-EC, Non-EFTA Countries Jan-June [CEI Database] ..... 16  
Exports to EFTA Countries Jan-June [CEI Database] ..... 17  
Exports to North American, Oceanian Countries Jan-June [CEI Database] ..... 17  
Total Value of Foreign Trade Jan-June [CEI Database] ..... 18

#### LABOR

Pension, Unemployment Insurance Reforms [GUANLI SHIJIE 24 Mar] ..... 18

#### AGRICULTURE

QIUSHI Notes Prosperity in 6 Jiangsu Villages [1 Mar] ..... 24  
Problems, Potential of Agriculture [ZHONGGUO TONGJI XINXI BAO 6 Apr] ..... 27

### SOCIAL

Commentator Links Clean Government, Economic Growth [FAZHI RIBAO 29 May] ..... 29

### REGIONAL

#### NORTH REGION

Beijing 1991 Procuratorate Work Report [BEIJING RIBAO 14 May] ..... 31  
Beijing 1991 People's High Court Work Report [BEIJING RIBAO 14 May] ..... 35

#### HONG KONG, MACAO

National Defense Budget for 1992, 1993 Analyzed [HSIN HSIN WEN 22 Mar] ..... 40

## NATIONAL AFFAIRS, POLICY

### Price Structure: Current Status, Problems, Prospects

92CE0504A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 5, 11 May 92 pp 38-45

[Article by the "China Commodity Market Development and Perfection" Team at the Finance, Commerce, Commodities, and Economics Institute of the Chinese Academy of Social Sciences: "Current Status, Problems, Prospects of China's Price Operations"]

[Text] Prices are barometers in the commodity economy and fulfill an extremely important function in the commodity market. The development and perfection of China's commodity market is inseparably bound up with rational prices. Rationalization of prices is a prerequisite for the development and perfection of the commodity market, as it is also the inevitable result, as well as important indicator for development and perfection of the commodity market. When we undertake the study of

China's commodity market, we must therefore unavoidably give serious attention to the price problem. The present article will start out from the further perfection and development of China's commodity market, will investigate the present status, problems, and prospects of China's price operations, and will put forward certain proposals of a policy nature, for the reference of relevant decision-making departments.

### Current Status of China's Price Operations

#### 1) The Composite Structure of the Pricing Mechanism

How are prices presently formed in China? They are neither formed by the executive organs of the state, as was almost completely the case before the 1980's, but are also not allowed to only form themselves basing on supply and demand in the market, but are determined by a pricing mechanism of a composite nature. This is composed partly by functions that are administrative measures of government organs, and partly by the functions of the market and its supply-demand relation. It is therefore quite different from what it used to be before the reform. In other words, the reform has radically changed China's pricing mechanism. These changes can be demonstrated by the data in the following table:

Three Changes in Price Formation

Year	Total Retail Sales of Social Commodities = 100			Total Sales of Farm Products by Peasants = 100			Total Sales of Means of Production by Factories = 100		
	State fixed prices %	State guided prices %	Free market prices %	State fixed prices %	State guided prices %	Free market prices %	State fixed prices %	State guided prices %	Free market prices %
1978	97	—	92.6	1.8	5.6	100	—	—	—
1980	—	—	82.3	9.5	8.2	—	—	—	—
1985	47.0	19.0	34.0	37.0	23.0	40.0	—	—	—
1990	29.7	17.2	53.1	25.2	22.6	52.2	44.4	18.8	36.8

Above table shows that in 1990 the proportion of state-fixed prices for social commodities was only 29.7 percent, for agricultural products sold by the peasants 25.2 percent, and for means of production sold by factories only 44.4 percent; all are under 50 percent. That means that state-fixed prices have retreated to second position. In contrast, free market prices have risen to the top position. Their ratio in the total retail sales of social commodities had already reached 53.1 percent by 1990, had reached as high as 52.2 percent in the sales of agricultural products by the peasants, and although only 36.8 percent in the sales of means of production by factories, that figure would also be more than 50 percent if we would add here the sales at state-guided prices.<sup>1</sup> The above-mentioned changes in the three pricing patterns indicate that the dominant role in China's pricing is no more played by administrative measures of state organs, but rather by the supply-demand relation of the market. Facts are proving that China has essentially already relinquished the old, traditional pricing and control system that was characterized by a high degree of centralization of

power, and that China has already started to institute a planned market pricing system.

#### 2) Gradual Move Toward a Rational Price System and Price Structure

Before the start of the reform, the Chinese price system (price structure) was irrational. This was mainly evident:

1. In the ratio between industrial and agricultural prices. Prices for agricultural products, especially for grain, had been unfairly low, while prices for industrial products had been unfairly high.

2. As to prices for industrial products, prices for energy sources and raw materials had been unfairly low, while prices for finished industrial products had been unfairly high.

3. In a comparison of commodity prices, all charges for services (e.g. rent, water and electricity, medical treatment, etc.) had been unfairly low.

4. In the relation of domestic to foreign prices, domestic prices had been unfairly low, and the state used to subsidize the domestic sale of imported commodities.

The above-mentioned problems have been mitigated to a certain extent through the price reform and other reforms in the economic system. Both the price system and the price structure have gradually become more rational. For instance:

In the ratio between industrial and agricultural prices, comparing 1990 with 1978, prices for agricultural and sideline products have gone up 2.74 times, while retail prices for rural industrial commodities have risen only 72.2 percent. This has to some extent resolved the problem of the past, in that agricultural products were priced unfairly low, and that has been helpful in improving the ratio between industrial and agricultural products.

In the price ratios within industrial products, development toward a more rational state of affairs is now in progress. Comparing 1990 with 1978, products of the extractive industry have risen 150 percent, ex-factory prices of primary industrial materials have risen 130 percent, and prices of finished industrial products have risen 94 percent. It is not difficult to see here that there has been an evident improvement in the relation between prices for basic industrial materials and manufactured industrial materials. Examining the profit rate on capital as between 1990 and 1978, in the case of the heavy industry this rate has declined from 14.1 to 6.98 percent, and in the case of the light industry from 25.7 percent to 8.13 percent. The profit rates on capital of various different industries are now drawing closer to the social average profit rate on funds, which indicates from yet another angle that the price system is in the process of becoming more rational.

The problem of excessively low charges for services has also to some extent been alleviated in recent years. Rents, water and electricity charges, and charges for medical treatment have all been markedly raised. In 1991 the charges for services have been raised to by far a much larger extent than the retail prices for commodities. Subsequent to reforms in the housing system and the medical service system, price increases for services will accelerate even faster.

In the relation between domestic to foreign prices, it was in the past an "off the hook" method, where enterprises operating with foreign capital had not been responsible for their profits and losses. If profits were made, they had to be turned over to the state; if losses were incurred, the state would make up for them. In recent years, subsequent to the reform of the foreign trade system, there has been a direct "link-up" between domestic and foreign prices for a considerable number of commodities, and state subsidies have been greatly reduced.

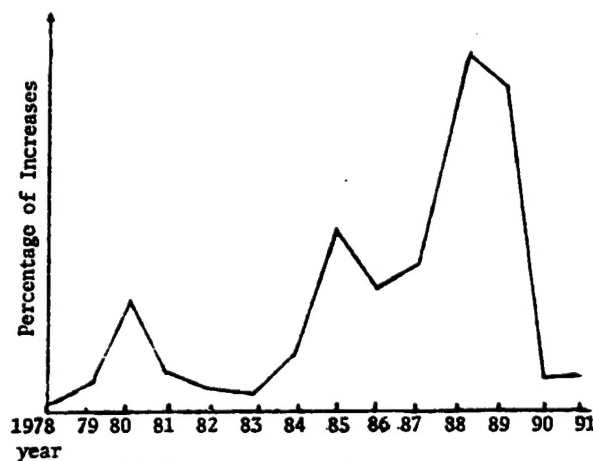
### 3) General Level of Up and Down Price Fluctuations

Price Indices for the Last 13 Years (in the preceding year = 100)

Year	General Index of Retail Prices Throughout the Country	General Cost of Living Index for Staff and Workers
1978	100.7	100.7
1979	102.0	101.9
1980	106.0	107.5
1981	102.4	102.5
1982	101.9	102.0
1983	101.5	102.0
1984	102.8	102.7
1985	108.8	111.9
1986	106.0	107.0
1987	107.3	108.8
1988	118.5	120.7
1989	117.8	116.6
1990	102.1	101.3
1991	102.6	108.4

A graph drawn according to this table is even more illustrative of the fluctuations of the general price level in China.

(Graph of Price Level Fluctuations)  
(Retail Commodity Prices)



It is not difficult to see from the above graph that there have been three peaks in the general price level during the price reform of the last 10-odd years, namely in 1980 at 6 percent, in 1985 at 8.8 percent, and in 1988 at 18.5 percent together with 1989 at 17.8 percent. In these three peaks, the later is always higher than the earlier. During 13 years, the average annual rise in the general price level



was 6.3 percent. This was roughly close to the annual average interest rate, and higher than the rate at which the average annual monetary income of the citizens was increasing. Thus, although price levels rose during the reform period, the actual living standards of the citizens did not decline due to the price increases, but rather markedly improved. This proved an important factor benefiting the smooth progress that China was able to achieve in its price reform.

#### 4) The Widespread Extent of Dual-Track Pricing

Before the start of the reform, planned prices applied to almost all of China's means of industrial production (industrial raw materials). Prices were determined by the relevant department of the government, and enterprises had no pricing authority, also no price adjustment authority. Subsequent to the more intensive reform of the economic system, the singular planned price system and materials management system were abolished, and the whole area of pricing means of production was tentatively introduced to a market mechanism. In 1979, floating prices were first instituted for the electronics and machine-building trades. In 1983, it was permitted to sell domestically at international market prices any portion of petroleum products that was not subject to state plan disposition. As from 1984, 37 coal mines under the state's uniform distribution system instituted 25 to 50 percent price increases for their sales of coal in excess of their assessed production capacity. On 20 May 1984, the State Council issued a document which prescribed that means of industrial production are to be included in the category of products that the enterprises may freely dispose of (2 percent) and that are in excess after fulfilling the state plan, and prescribed that in general the enterprises may have authority to set the prices within a margin of not more and not less than 20 percent of the state-fixed prices. In January of 1985, the State Commodity Price Administration and the State Materials Administration jointly issued a document which abolishes the above-prescribed restrictions, thereby officially instituting the dual-track system for prices of the means of production. Thereafter, the sphere of the dual-track system of prices was gradually expanded. At present, almost all means of industrial production are priced according to the dual-track system, and whatever the item of these means of productions, every item has a planned price as well as a market price. Some foreign economists believe that the dual-track system is a useful Chinese invention. In China itself there are some economists who believe that it is an excellent transitional pattern for China's price reform, and that it is a pattern that has to be inevitably employed during the gradually advancing stage of the reform. There are also economists who believe that the dual-track price system is the root of all evil, the hotbed of corruption and decadence, the cause of all trouble, and that it must be eradicated immediately.

#### Problems in China's Price Operations

##### 1) Strong Obstacles to the Further Delegation of Pricing Powers

The government has already delegated much of its pricing powers during the 10-odd years of the reform. However, judging by what is demanded in a planned commodity economy, the government still holds an excessive amount of pricing powers, and there would still be need for a further delegation of powers. On this issue, the upper and the lower levels demand a further delegation of authority, but there is resistance at the intermediate level. The CPC Central Committee and the State Council have repeatedly demanded a broadening of the reform and continued decontrol of a section of our prices, while the enterprises demand even more persistently that they enjoy full pricing authority. However, certain government agencies that hold pricing powers are deadly afraid of further decontrols that would make them "unemployed" or even "redundant." There is fear of "unemployment" not only in the lower government agencies, such as prefectures, counties, and municipalities, but it is also evident in some organs of the provinces and the central government. The question how in future to reform the administration organs in charge of prices, change their functions, and convert them into service and supervisory branches is now already on the agenda of the reform of the economic system.

##### 2) Increasing Pressure Rebounding From Currency Inflation

The movement for improving the economic environment and rectifying the economic order stopped the high currency inflation of 1988 and 1989 and caused it to recede to normal dimensions. Is it from then on "peace on earth," and is there no chance that a currency inflation may recur? Not at all. We have to consider possible danger while things are quiet at the moment. In actual fact, the potential pressure of a currency inflation has increased and not diminished, the main reasons for this being: a) In 1990 and 1991, new credits of over 600 billion yuan have been granted to stimulate the economy, and additional 80 billion yuan of new currency has been issued on a scale and with a speed that has never been seen before. This is the primary factor that can induce a rebounding of currency inflation. b) In 1990 and 1991, the government has one by one readjusted upward the prices for gasoline, coal, electric power, cement, steel products, nonferrous metals, and other such means of production, to a total value of around 100 billion yuan, on a scale and at a speed that has never been seen before. If the manufacturing enterprises cannot digest and absorb these price increases, they will sooner or later become evident in the market and will stimulate retail commodity prices to rise. c) Economic returns from industrial enterprises are not good, they have to bear all kinds of heavy burdens, and lack the ability to digest and absorb the price increases. They will, therefore, at the first opportunity transfer the price burden on someone else, which will induce price increases in the marketplace. d) Trying for big things and trying to get to the top fast are attitudes that appear to have made a comeback. At quite a number of places and in many sectors it is believed that improvement of the economic environment and rectification of the economic order has already been accomplished, that the economy is again on the proper track, and that a good opportunity has again arrived for a

full display of one's great skills. In the end, it has again become the fashion to grab for projects and investments, attempting to acquire the best things, and getting to the top fast. If effective measures are not taken to stop this, it will not take long for the economy to again become overheated, and make it difficult to maintain the overall balance. Once this situation will have arisen, it will hardly be possible to avoid a currency inflation.

Mindful of the above-mentioned circumstances, we must not just sit back and relax, we must rather give attention to adopting measures that will prevent a rebounding of the currency inflation.

### 3) Price Subsidies Still a Heavy Burden on Finances at All Levels of the Administration

In 1991, state finance paid about 40 billion yuan as direct price subsidies and it subsidized enterprise losses to the amount of 60 billion yuan, which makes a total of 100 billion yuan, or about 28 percent of the total financial revenue of that year. Enterprise losses, it is true, have as their cause incompetent business management, but the irrational prices fixed by the state must not be overlooked as one factor. Perceived from the price angle, the subsidies paid to enterprises to compensate losses are also a kind of price subsidy. Reduction of price subsidies has become an important way to escape from the financial dilemma. How can price subsidies be reduced? We must intensify price reform, and furthermore again delegate some of the pricing authority that is still held by the state. Rights, responsibilities, and interests are three things that go together. If the state holds on to the all-important authority, strictly controls the enterprises, and strictly controls prices, it should of course also fulfill its obligations, assume responsibility to pay the enterprises subsidies to compensate for losses and pay price subsidies. If the state would delegate authority, would not, or would less rigidly control enterprises and prices, that would reduce the state's responsibility, and it would then not have to pay, or have to pay less subsidies of all kinds. Still intent on holding on to all authority, but on the other hand unwilling to fulfill obligations, unwilling to bear responsibility, thus trying to have it both ways, that is an outright impossibility. According to the demands of the planned commodity economy, the state must continue to decontrol prices for further groups of commodities, in order to reduce the price subsidies being paid by public finance.

### 4) The Dual-Track Price System Invites Corruption and Decadence

The dual-track system has a dual nature, it has positive, but also negative effects. Its negative effects are specially conspicuous when the economy is overheated, when there is a sharp disparity between supply and demand, when planned prices and market prices are far apart. Some lawless elements will frequently take advantage of the dual-track prices, at times selling parity price commodities at market prices, at times converting market price commodities into parity price commodities, and reaping unfair gains by these conversions from one to the other, making lots of money, and becoming one of our "nouveaux riches." Of course, it

would also be inappropriate to impute to the dual-track system blame for the entire corruption and decadence problem. States that have no dual-track system, and at times when no dual-track system was in force, there was also a problem with corruption and decadence. The dual-track system is merely one external factor. Corruption and decadence is not only determined by this factor, but due to other factors, especially due to subjective factors. As things appear now, it would still be difficult to abolish the dual-track system within a short time. The problem of how to promote what is beneficial and abolish what is harmful, and how to perfect the dual-track system, constitute the one task with which we now faced.

### 5) Inadequate Information Gathering, Unprogressive Management

In China commodity sales are frequently stagnate, while at the same time there are shortages of the same commodity; sales are stagnating here, while shortages are felt there; there is oversupply in the cities, while demand cannot be satisfied in the rural areas. This situation is caused by the lack of communication equipment, by transportation difficulties, and by inability to transmit price information. Millions of peasants, particularly, suffer difficulties and inconveniences because of the inefficient transmission of price information. All peasants eagerly hope to receive accurate and timely price information.

Presently, China does not enact any price laws. Other rules and regulations are also insufficient, so that China currently has "prices being ruled by the human element," rather than "prices being under the rule of law." Price order in the marketplace is still quite chaotic. There are no legal provisions to operate under; where laws exist they are not observed, there is bribery and bending of the law, and all these are actual occurrences. Pricing relations between state and enterprises, the central authorities and local authorities, or between various sectors and regions, have not been straightened out, leaving many problems awaiting a solution.

### Prospects in China's Price Operations

#### 1) The Pattern of Planned Market Prices

On the question, what price pattern should China adopt in future, theorists have on the whole three different viewpoints.

According to one viewpoint, the socialist economy is a planned economy with only some market elements, and its system of economic management should have predominance in planning, putting market regulation in a subsidiary position. In keeping with this view, the pattern should place price formation and pricing operations to planned prices first, leaving market prices in a subsidiary position. Under this pricing system, the state controls most commodity prices and service charges, and only determines, by supply and demand in the market, a small minority of prices for less important commodities or services. This price pattern is very much like the traditional price system of the past.

A second viewpoint is that the socialist economy is a commodity economy or market economy and must practice a system of market-oriented economic operations and management. In keeping with this view, it must implement a market-oriented price pattern in its price formation and pricing operations. Under this type of price pattern, the prices for all commodities and services are to be determined by the supply-demand relationship in the market, and any state determination of so-called planned prices is completely unnecessary. Also, there is no need for the state to intervene in the formation and operation of market prices, all prices being automatically regulated by "an unseen hand." This price pattern is very much like the capitalist price pattern in times of free competition.

According to a third viewpoint, the socialist economy is a kind of planned commodity economy and should practice an operational and managerial system of a planned commodity economy. In keeping with this view, it must implement a planned market price pattern in its price formation and pricing operations. In this price pattern, the prices for a small number of important commodities and services are to be determined and controlled by the state, while prices for the majority of commodities and services are to be freely determined by the enterprises themselves on the basis of the supply-demand relation. Only in case of necessity shall the state adopt appropriate economic measures for indirect intervention. This price pattern is the one we refer to as the socialist price pattern with Chinese characteristics.

The authors of this article are in favor of the third view, but with the addition of two supplementary points:

1. Distinction between the mentioned "majority" and "minority" is to be figured according to the sales volume of the commodity or the volume of the service, and the proportion of commodities and services with prices fixed by the state should maintain a ratio of more or less 20 percent, while the ratio of commodities and services to which market prices or state guiding prices apply should preferably not be less than 80 percent.

2. Commodities and services with prices to be fixed by the state should be limited to those with manufacturing technology monopolies and those of common use and consumption by the general public. Prices for all other commodities and services shall be freely determined by the enterprises based on the supply-demand relationship.

During price formation and pricing operations, any role played by state administrative departments that are excessive would be inappropriate, but denying state functions altogether would not be acceptable. The former has already been proven during several decades of experience in China, in the Soviet Union, and in the countries of East Europe; the latter having been proven in the last several centuries of experience with Western market economy countries. There is only one historical conclusion: Price formation and pricing operations depend primarily on the market; state intervention can

only have good results if carried out within the scope of necessity and at the opportune time. This, then, is China's future ideal price pattern.

According to the demands of the ideal price pattern, China's price reform still faces very arduous tasks. Whether in the area of agricultural products, or in the area of industrial consumer goods, but especially in the area of industrial means of production, the proportion of items subject to state-fixed pricing must further be reduced in all these areas, and the ratio of those subject to market prices and state guidance pricing must be correspondingly increased. That means that price reform must continue to advance in the direction of decontrolling prices, that enterprises truly undertake pricing authority, and that prices return to the realm of market exchanges. The past 10-odd years of price reform has already verified that this direction is correct. All the commodities and services for which prices were decontrolled experienced rapid development. So far, there has never been a case where it was found to be a mistake to have decontrolled the price for a commodity or a service. Market prices have greatly stimulated the development of the Chinese commodity economy. It is therefore beyond doubt that the future direction of the price reform will adhere to the market direction.

## 2. A Rational Pricing System and Price Structure

Rationalization of the pricing system and of the price structure plays an extremely important part in the development and perfection of the commodity market. The primary objective of the price reform is to establish a scientific and rational price system in order to spur on economic development as well as scientific and technological progress.

How are we to appraise whether a price system is rational: what are the objective criteria? According to the traditional version, there are three: So-called rational prices had to (1) conform to value, (2) reflect supply and demand, and (3) to accord with policy. As a matter of principle, there is nothing wrong with these criteria, but they are insufficient in actual application. Using the above criteria to assess whether prices are rational is very difficult. As value presently very difficult to calculate, it is very difficult to judge whether or not a price conforms to value. The supply-demand relationship is uncertain and fluctuating, therefore making it difficult to reach a conclusion over what type of price is actually reflecting the supply-demand relationship. In the case of the criterion of compliance with policy, here the arbitrary willfulness is even greater. Some may believe a certain price conforms to policy, others may believe it violates policy. The traditional assessment criteria are, therefore, no more suited to the demands of the development of a commodity economy, making it necessary to come up with new criteria.

Starting out from the need to develop and perfect the commodity market, we believe that average profit must be the objective criterion for whether a price system is rational. Under normal business conditions, when market competition prevails, prices for commodities and services of all lines of trade will allow the operator of a business gain an average



profit, and such prices are rational. If this is not the case, then prices are irrational. Because of disparities in production and business operations, the various individual enterprises within each line of trade cannot possibly be certain to gain the average profit. The average profit in a trade or the average profit of a sector are the objective criteria for the assessment whether prices in the socialized commodity economy are rational. If profits are lower than the average profit of the trade or sector, then the prices are unfairly low. If profits are higher than the average profits of the trade or sector, then the prices are unfairly high. If the majority of trades and sectors can gain social average profits, then the price system is rational. The effectiveness of the new criteria in actual application are easy to see. If only the figures for capital and profits of the various trades and sectors are available, it will be very easy to establish these criteria.

When assessing the present Chinese price system according to the principle of average profits, we shall soon discover that there are still many problems. Some trades and some sectors (such as coal, crude oil) not only have no profits, but are even incurring losses. Many trades and sectors have little profit; a small number of sectors and trades make high profits. The disparity in profits is due to many factors, and among these the role of prices must not be overlooked. High prices means high profits, low prices means low profits or losses. In case of low prices, it is necessary through price adjustment or price decontrol to raise them to a rational level. In case of high prices, it is also necessary through tax-, credit-, and investment-related measures to have the enterprises earn average profits, and one must not blindly contribute further to the development of these enterprises merely because their prices and profits are high.

### 3) A Relatively Stable Price Level

Fluctuations are one of the innate characteristics of prices. Production costs, business expenses, supply-demand relations, etc. are constantly changing. The changes of these factors will directly and indirectly affect prices. It is for this reason that prices for commodities and services are constantly changing. This is a common phenomenon in the commodity economy; it is also a rational and good phenomenon. Regarding prices as solidified, immutable and frozen shows, to say the least, a lack of a mentality that is in line with the commodity economy. To avoid any or large changes in the prices for agricultural products, the United States and West Europe are paying a heavy price, which is presently creating a serious obstacle at the Uruguay round of talks. China too has also paid huge amounts of subsidies to freeze commodity prices and also the sales prices of grain and edible oil in the 1960's and 1970's. Practice has proven that these methods do not work; we must draw lessons from those experiences.

However, allowing violent fluctuation of prices without trying to restrain them would then again disturb all business relations, ruin the normal business order, and even lead to social upheaval and political instability. It is for this reason that the governments of Western market economy countries, in the same way as the governments

of Eastern socialist countries, make great efforts to maintain a relative stability of commodity prices in the market and to avoid the occurrence of currency inflation. Relative stability of the general price level is a prerequisite for the normal workings of the national economy, as it is also its result. To ensure a continuous, steady, and well-coordinated development for China's economy, we still have to persist in a policy of relatively stable commodity prices. China's price reform also proves that without a price environment of relative stability, it is hardly possible to carry out price reform. During the three years from 1987 to 1989, prices in China shot up steeply, evoking intense reactions among the people, and reform items that should have been put into effect were forceably postponed. Ensuring any further progress in China's price reform requires the correct handling of price adjustments as well as the relationship of price decontrols and commodity price stabilization, promoting integration of these two factors without putting any particular stress on one or the other side.

According to past experiences, the average annual rise of the general price level must in future be controlled at below the year's average interest rate and below the average annual growth of the citizens' monetary income. The former will ensure a positive, rather than a negative value of the citizens' deposit interests, will avoid runs on banks by savings depositors, and will avoid assaults on the market. The latter will ensure that there will be no decline, but rather a rise in the people's present actual living standard. All the above was stated in respect of the country as a whole, as to the various trades and local regions, they all have their peculiarities, and price levels may be somewhat higher or lower, any measures taken should therefore be made to suit local conditions. Even so, it will hardly be possible to ensure that some people will not be adversely affected by price rises. Income increases differently for different social strata, and for a variety of reasons, some incomes may still decline. To those who will really have difficulties making it, the government should allot cost of living allowances.<sup>2</sup> The fact that some may not be able to endure the burden of price rises should not be reason for hesitancy to move forward in the price reform.

### 4) Gradual Merger of All Prices From Two Tracks to One Track

The dual-track price system is an excellent transitional form enabling the effective change of China's price pattern. It opened up a road for the implementation of the reform of prices for means of production in a tense economic environment, promoted a change in the pricing mechanism, gradually introduced the market mechanism into the areas of production and exchanges of the large- and medium-sized state enterprises, and promoted a rapid development in the production of important industrial means of production. However, the dual-track system is, after all, only a transitional pattern. China's price reform must not halt at the dual-track system phase, but must advance further to arrive at the ideal price pattern.

Merging the two tracks into one track will be a process that will require a longer period of time to accomplish. Conditions have not yet matured for a nationwide abolition of the dual-track system. Conditions might be right only for some specific items of commodities, such as cement and rubber, where favorable conditions exist and where the merging of tracks is initially being carried out. For the majority of means of production, for which merging of tracks is being considered, the necessary favorable conditions must still be created. Where appropriate conditions do not exist, the forcible merger of tracks will very likely result in turning an open dual-track system into a covert dual-track system. Not only that, there may occur a reversal from the unitrack system. Wherever favorable conditions presently exist, the merger of tracks has been carried out. As conditions change, the dual-track system may possibly reappear. Of course, even there the dual-track system will in the end still evolve into a unitrack system.

Apart from being aware of the long-term and arduous nature of the merging of tracks, it is also necessary to correctly solve the problem of orientation in our merging of tracks. Where is the dual-track system headed for? There are three different answers. According to one viewpoint, the merging of tracks is a process that tends toward planned prices (or government-fixed prices); through the merging of tracks, planned prices or government-fixed prices will be instituted for a large proportion of means of production, and only for a small group of less important means of production will market prices apply. According to a second viewpoint, merging of tracks is a process tending toward the market track (or market prices); through merging tracks, market prices will be instituted for a large proportion of means of production, and planned prices will be applied to only a small group of important means of production which are the economic lifelines of the national economy. According to a third viewpoint, through merging tracks, the pricing authority for a large proportion of the means of production will first of all be concentrated, and planned prices will be instituted for these commodities. Later, conditions will be examined to gradually decontrol them, group after group and at different times, to finally arrive at a stage of having market prices for most of the means of production. These three viewpoints represent three different orientations for track merging. The first is to take a backward road, thus not feasible. The third appears to be the "curved line of national salvation theory" but in essence is also a reversal to the old system, therefore also not workable. We are in favor of the second viewpoint. Through track merging we must gradually advance toward a planned market price pattern.

The "merging of tracks" of prices for the means of production must abide by the principles of "rectification, concentration, perfection, and control." The term "rectification" refers to rectifying the chaotic conditions of the dual-track system and getting to a unitrack system. The term "concentration" is used in respect of production technology monopolies and products and services of public utilities and of the war industry, for which the dual-track prices should not have been applied in the first place; here we have to be firmly determined to abolish the dual-track system. The

term "perfecting" refers to formulating rules, regulations, and institutions for the operation of the dual-track system. The term "control" refers to supervision and investigation of the implementation of the dual-track prices, discovering the violators of discipline, punishing them severely, and preventing them from gaining unfair economic advantages.

Track merging may adopt the following forms: 1) Merging tracks trade by trade, giving priority to monopolistic trades, public utilities, and the war industry, all other trades to follow in proper order. 2) Merging tracks according to products, giving priority to those for which demand and supply is basically in balance and where the disparity between the two tracks is not large, others to follow in proper order. 3) Merging tracks according to regions, with priority to be given to special economic zones and economic development zones, other regions, especially backward regions, may follow a little later. 4) Merging tracks according to links. In view of the comparatively numerous problems in the circulation link, track merging could be first started in the circulation link. It would also be possible to start merging tracks with the ex-factory prices of the production link, and only thereafter undertake merging of tracks at the circulation link.

#### 5) Highly Efficient and Versatile Price Control

A serious defect of the old traditional price system had been that there was a "too much, too severe, too rigid" price control by the state departments. As China undertook the solution of these problems during the course of the price reform, there arose another erroneous tendency: this was to completely negate any state control in matters of prices, believing that since prices have been decontrolled, the enterprises should be allowed to freely determine prices according to the supply-demand situation, and there being no necessity for the state to again exercise control over prices. This viewpoint is wrong; it is harmful for the development of the planned commodity economy and harmful for the normal operation of market prices. The problem in the price operations of the enterprises is frequently their short-term orientation; there are also disguised forms of price increases, such as passing off inferior quality goods for high-quality goods, giving short measure of goods to customers, etc. There are also endless numbers of price disputes arising in the various markets (e.g. at country fair markets, at various specialized wholesale markets, at futures markets, etc.). If no control is exercised, if there is no price supervision, if these situations are left unchecked, it will hardly be possible to ensure the order of normal commodity circulation.

Price control may either be direct or indirect. Direct control comprises government determination of prices for a small group of important commodities or services that affect the national economy and the people's livelihood. The government will determine the ceiling prices and the lowest protective prices, allowing prices to float in between. It also refers to freezing of prices in case of necessity, etc. Indirect control refers to the use by the government of such economic means as finance policy,

taxation, credits, and foreign exchange, to interfere in the price level, price structure, and parity price differentials.

The measures adopted in price control are primarily administrative measures, legal measures, and economic measures. The term "administrative measures" refers to the use by the government of its political power in the determination of price policy and formulation of relevant rules and regulations, and in forcing commodity producers and dealers to abide by them. The term "legal measures" refers to the state formulating price rules and regulations and the checking and supervising of their enforcement. The term "economic measures" refers to such economic regulatory levers as financial policy, taxation, credits, and foreign exchange. Among the three types of control measures, the economic measures are the most important. If only an excellent macroeconomic environment existed, price operations would be on an ideal orbit, and the various undesirable price and pricing activities would greatly diminish.

The history of the planned commodity economy is still very short, and practice and experiences have also been limited. How to conduct highly efficient and versatile price control within the framework of planned market prices is, as far as China is concerned, still a new topic, and practice is even more lacking in this respect. In view of this situation, it is very necessary to start out from the realities of China, draw lessons from the experiences of many countries, and to make every effort to create a socialist market price control pattern with Chinese characteristics.

#### 6) Accurate and Early Price Information

China is a country with a vast territory, and economic developments in its various regions are not well balanced. Good market and price information is therefore extremely important for the ongoing production in China's several million enterprises and for the millions upon millions of its peasants. The state must not only control prices, but must, even more importantly, assume responsibility for the prompt issue of accurate market and price information. If that is not done, it will hardly be possible to develop a commodity economy and will also hardly be possible to create an excellent market. It is for this purpose that we must enhance our communications equipment and must exert efforts to improve transportation conditions. Improvement of communication equipment, efficiency in market information, and accuracy of price information are all factors that will greatly promote the development and perfection of China's commodity market.

#### Footnotes

1. The term "state-guidance prices" refers to commodity prices and standards of service charges transmitted as guidance to the enterprises by the commodity price departments of the people's governments at the various levels above county rank and the departments in charge of business affairs, according to the powers of office

prescribed by the state. These prices had been determined through a determination of basic prices and floating margin, profit rate, ratio between input and sales, highest ceiling and lowest protective prices.

2. The method of granting income subsidies to those who have difficulties in their livelihood is simpler and easier in comparison with supplying quotas at low prices. It will also prevent graft by unlawful elements, as well as decadence, profiteering, and embezzlement. It will furthermore save administrative expenses. It is for these reasons that we are in favor of paying income subsidies to those who have difficulties in their livelihood.

## FINANCE, BANKING

### Stock Markets in Perspective

92CE0590A Hong Kong MING PAO YUE-KAN [MING PAO MONTHLY] in Chinese No 7, Jul 92 pp 48-55]

[Article by Shao Chunlin (6730 2504 2651): "China's Stock Markets: Report on 1992 Conditions and Future Prospects"]

[Text] **Editor's note:** The faster pace of China's reform and opening is opening up new investment targets for Hongkong. As to stock markets, China's have made an amazing recovery in just a few years. For instance, Shenzhen stock prices skyrocketed 20-fold in the short nine months from March to November 1990, a success that the Hong Kong stock market took two decades to achieve. MING PAO YUE-KAN has specially invited Mr. Shao Chunlin, a specialist and scholar from the Shanghai Asian Studies Institute, to write this article, which details the new features of China's post-recovery stock markets, the first-half 1992 performance of the Shenzhen and Shanghai stock markets in particular, as well as forecasting their future trends. As to China's B stocks, which are of particular interest to foreigners, it also provides an authoritative and detailed critique that is of great reference value to investors. Mr. Shao has also recently coauthored with five other PRC economists *The Bulls Against the Bears: China's Stock Markets in Perspective*. [End editors note]

#### I. The First-Half 1992 Performance of the Shenzhen Stock Market

##### 1. The Market Was Stagnant for More Than Three Months, Leaving Stockholders Perplexed and Mostly Taking a Wait-and-See Attitude

In the last trading week of 1991, Shenzhen stocks rebounded for a while, so that the Shenzhen index climbed to close out the year at 110.3688. While many insiders thought that this signaled better times to come, the end of the downward correction in Shenzhen stock market prices since mid-November, and a quick market upswing was certainly not the case. Not only were the stagnant prices of Shenzhen stock market far from over, but they were to continue for another two months or more.



The Shenzhen index stood at 110.5271 on 2 January 1992, but remained at only 110.9814 by the end of January—almost no increase in a month. While the index experienced several ups and downs during this time, they were very small, with less than 2 percentage points either way. As all stock prices had basically not changed, and many securities agencies were doing little business, the Shenzhen Stock Market had become a stagnant market.

On 30 January 1992, Fazhan and Jintian stocks rose, pushing the index over the 110 mark to 112.5743, and even up as high as 116 for a time by the end of the Year of the Rat (3 February). But while Fazhan and Jintian stocks rose considerably, laggards, such as Wanke, Anda, and Baoan, rose only very slightly. Then after the Spring Festival, things began to pick up again, with the Shenzhen Stock Market index recovering to fluctuate between 114 and 115 during the first trading week of the Year of the Monkey (10-14 February). Another overall downswing began on 14 February, with even Yuanye stocks that had been rising so fast recently that trading had to be stopped daily, being suddenly sold off in large amounts, so that even their "turnover" was dampened. Afterwards, the index basically remained between 111 and 114, while dropping to a low of 109.2204 on 26 February.

On 28 February (Friday), the new Southern Glass A and B stocks that had been issued at the end of 1991 went on the market, suddenly bringing new vigor to the sluggish stock market. On that day, there was a rush to all securities agencies, with an extraordinary amount of excitement. But while Southern Glass A and B stocks opened at the guidance prices of 6.8 yuan and 4.8 yuan, respectively, they rose due to short-selling, and it was not until they had reached 8 yuan for A stocks and 5.75 yuan for B that the first transactions were concluded. Then both A and B stocks continued to rise together. By the morning close, B stocks had climbed to 7 yuan before stopping temporarily, while A stocks rose nonstop to a high for the afternoon of 10.75 yuan before stopping, with A and B stocks closing for the day at 10.5 yuan and 6.85 yuan, respectively, for one-day price increases of 210 percent and 72 percent, respectively. That day, the index rose to 113.2961. While the strong impact of the Southern Glass A and B stocks caused other stocks, such as Jintian, to increase slightly on 2 March (Monday), when the index climbed to 115.5354, its highest point since early December 1991, stock prices began to fall on Tuesday so that, except for Fazhan stocks, no others lived up to expectations. Southern Glass A stocks, which had just been put on the market, fell steadily to under 9 yuan, which fall continued steadily into late March. And the Shenzhen index fell back to 113.9589 by 6 March.

While the good news of a "2-for-1" bonus sharing decision at a Fazhan shareholders meeting on 9 March (Monday) drove Fazhan stocks up for a time to 32.9 yuan, the continued decline in Jintian stocks and the lack of improvement in other rear-guard stocks sapped the support of Fazhan stocks, which began to fall again the

next day, stopping only at 32 yuan by 20 March on the eve of the stock rights and interest division. In short, all the way up to 16 March, the whole market remained stagnant, with slack trading and investment and stocks in a slump. Due to the stagnant market that had continued for over three months since December 1992, stockholders were already so apathetic that they responded coldly and slowly even to the news of the Fazhan stock "2-for-1" bonus distribution and the succeeding distribution plans made at stockholders meetings for Wanke and Jintian stocks.

According to my analysis, the major reasons why the Shenzhen Stock Market was stagnant for so long were as follows: 1) As large amounts of new stocks were issued around the turn of the year, and the concerned authorities had long since announced that the new stock issues would be put on the market in the first quarter of 1992, most stockholders were afraid that the Shenzhen Stock Market would grow too large all at once and tie up a lot of funds that would affect old stocks, so preferred to wait for the new stocks to come on the market, rather than taking risks. 2) The frequent and conflicting reports of market bonus sharing and stock splits since late January left many stockholders at a loss, fearing that the same disastrous steps would be taken to restrict bonus sharing as had occurred in 1991.

## **2. A Clear Policy of More Bonus Sharing and Dividend Distribution Stimulated an Upsurge**

On 17 March 1992, with the approval of the relevant national sectors, the Shenzhen municipal government issued "Temporary Provisions on Limited-Liability Companies in Shenzhen City." Shenzhen Mayor Zheng Liangyu 6774 5328 3768] interpreted these provisions as an authoritative "Basic Law" for the relevant government sectors to use as a strict guide for enhancing their future management and oversight of stock companies and the stock market. Articles 135, 136, and 140 of the Provisions closely affect investors. Article 135 stipulates that stock companies should collect "accumulation funds," Article 136 further states that these accumulation funds can be "converted to additional capital with which to issue new stocks to original stockholders based on their stock percentages," while Article 140 clarifies that company bonus sharing and profit distribution can adopt the two share interest forms of "cash" and "stocks." With this legal backing, stockholders no longer have to worry about whether they will be paid dividends or who might interfere in bonus sharing. In addition, as those stock companies that had already collected a huge amount of "accumulation funds" in past years are now permitted to convert them to additional capital, their stockholders can also earn sizeable profits from stock distribution when accumulation funds are converted to additional capital. This, in addition to the news of the stock distribution of name stocks that pay more than 30 percent in dividends, reignited the interest of Shenzhen stockholders in the stock market.



The first stock to make waves was Baoan. This stock company announced in the SHENZHEN TEQU BAO that it would earn profits of 200 million yuan in 1992, after which the media revealed that it had acquired tracts of land in Shenzhen, Shanghai, and Wuhan that it was planning to develop for profit. On 16 March (Monday), Baoan stock shot up to 12 yuan and its trading volume increased sharply, while the Shenzhen index picked back up to 115.6274. On 23 March (Monday), the Shenzhen Stock Market, which had been stagnant for over three months, finally "burst forth." On Monday, Fazhan stocks paid dividends and opened immediately higher, and on Tuesday, Jintian shot up while Fazhan and Baoan continued their upward climb, so that the market climate was greatly improved. Beginning on Wednesday, all securities agencies were busy from early morning and packed with buyers, so that all A stocks shot up and the market climate of pessimism and waiting disappeared at one stroke. On Friday, a new stock, Kangjia, was put on the market, crowds of stockholders rushed to buy it, and its price was established at once. That week, the index rose from 116.1802 to 130.2081, or 12 percent.

Materials and Zhonghua went on the market on 30 and 31 March, respectively, catching up to old stocks in just one day, which finally dissolved stockholder worries about new stocks being put on the market. In the first half of that week, all stocks rose, and the index topped 143, setting a record for the Shenzhen index. Beginning on Wednesday, a correction was made, starting a new round of large-scale trading and laying an increasingly solid foundation.

On 6 April (Monday), after the preceding week's temporary correction, the Shenzhen Stock Market began to climb again. Except for the problems experienced with the Yuanye Stock Company's stocks, all other stocks rose to varying degrees. The week's trading volume was 609 million yuan and the index rose to 165.6556, both of which set new records, so that the whole stock market was extraordinarily brisk.

During the week of 13-17 April, the stock market fluctuated rather sharply. At the opening on Monday, everything was up, including the new Dasheng stock that rose due to short-selling to 22 yuan before its first transactions were concluded. On Tuesday, the index rose to 191.9211, while Jintian stock was up 11 percent. But not long after the opening on Wednesday, while the stock market began an overall downswing of such force that it had stockholders racking their brains for a time, it made a full recovery the very next day. By Friday, the climate of the stock market had become very much wait-and-see, with the index down a slight 2 points, which affected the first half of the following week.

On 22 April (Wednesday), when the newspapers reported the news that State Council Vice Premier Tian Jiyun had said during a tour of the Shenzhen Stock Exchange that "stocks are a good thing," this drew special attention from foreigners and became a phrase of greeting for a time among stockholders. The stock

market, which had been stagnant for several days, drew support from this good news, with a sharp increase in buying, a quick general recovery, and the index topping the 200 mark at 202.6395 by the close on the 24th. The rapid rise in the index that week was driven mainly by the sharp increase in the prices of B stocks, with all four of them up 13.7-27.8 percent in one day on Thursday.

By mid-May, the Shenzhen index had skyrocketed. While Fazhan, Jintian, and Baoan stocks had experienced sharp struggles between bulls and bears, so that prices had dropped sharply on 27 April and 6 May, they had recovered very quickly. By 15 May, Fazhan and the newly marketed Zhenye stocks had both topped 40 yuan, reaching 45.3 yuan and 43.5 yuan, respectively. Except for Yuanye and Southern Glass, all other stocks had leaped 200 percent. And the Shenzhen index had reached a record 272.0066, climbing since mid-March all of 160 points, or 143 percent!

In perspective, the direct cause of this bull market in Shenzhen was the high dividends paid by old stocks in 1992. In addition, there were two deeper reasons: 1) The improved "macroclimate," such as the putting into effect of laws and regulations for stock companies, and Vice Premier Tian Jiyun's inspection tour, increased investor confidence in the Shenzhen Stock Market's development prospects. 2) The better achievements and higher stock market profit margins of stock companies in Shenzhen than in Shanghai attracted much investment from other places, such as Shanghai, to the Shenzhen Stock Market.

## II. The First-Half 1992 Performance of the Shanghai Stock Market

### 1. The Control of Circulation Volume Restricted Stock Prices, So That Trading and Investment Shrank to the Point of Almost Total Stagnation

After the Shanghai Stock Market put into effect a combined price limitation system of 1 percent rise or fall along with 3 percent circulation volume control at the end of September 1991, (i.e., a stock's trading volume must reach 3 percent of its market volume before it is allowed to rise or fall 1 percent), while stocks fluctuated between rising and stagnating, the general trend remained a steady rise. By the end of February 1992, the Shanghai Stock Market index had reached 291.72, or 110.81 points and 61.25 percent higher than at the end of September 1991. While major stocks, such as Vacuum Electronics and Yanzhong, had experienced some price fluctuation before the circulation volume control law went into effect, the situation on the Shanghai Stock Market of demand exceeding supply after this law went into effect seemed to cast a protective cloud over it, so that no more price fluctuation occurred, because price rises were stopped due to trading volume not reaching 3 percent. This brought about a mindset of "all you have to do to make money is to buy in," with Shanghaians competing to buy into the market, which finally resulted

in the Shanghai Stock Exchange being forced to temporarily halt trading in late November due to traffic jams. On the other hand, stockholders regarded stocks as gold and were strongly reluctant to sell, so that bidding declined steadily and trading volume dropped sharply. By the 3rd week of January 1992 (the 13th to 17th), the miracle of "empty board" zero 1-day trading volume was occurring repeatedly for many stocks. In fact, the Shanghai Stock Market began at the end of October 1991 a three-month period of "stagnant" and "dead" markets where trading volume was insignificant and there were no stocks for sale.

## **2. The Top-Level Markets Sold "Lottery Tickets," So That Those Without Stocks Could Draw for "Purchase Rights Certificates"**

When Xingye stocks were issued in mid-August 1991, buyers gathered in swarms, breaking in purchase site doors and windows, and forcing the seller, the Wanguo Securities Agency, to shift its purchase sites, which angered the public into certain incidents of bickering and fighting, and aroused the attention of the relevant central authorities, who made a special trip to Shanghai to investigate them. To this end, the concerned Shanghai authorities prohibited for a time the broadcasting of any news about stocks or the stock market by the newspapers or radio and TV stations.

When the notice appeared in the newspapers in December 1991 that Public Rentals, Zhongcheng Real Estate, and Special-Shaped Steel Pipe were going to raise capital by floating shares, an incident of crowding causing many injuries occurred at the appointment registration for the purchase of Public Rentals, forcing Zhongcheng Real Estate and Special-Shaped Steel Pipe to temporarily slow their appointment registration. Thus, the method of issuing stock purchase "lottery" tickets was initiated in mid-January 1992.

These stock purchase tickets are equivalent to purchase rights certificates for new stocks. They were sold to the public from mid-January to 1 February. There was no limit to individual purchases, with the price being 30 yuan a ticket, and tickets being valid for one year. Every time a new stock is issued in 1992, the numbers are rolled and the winners can buy new stocks with these tickets, analogous to winning lottery prizes. As the concerned parties announced that most of the income from the sale of these purchase tickets would go to the construction of a public welfare office in Pudong, this blurred the distinction between investment and donation. In addition, as the facts about new stock issues in 1992 were not clear at the time, only 2.0767 million purchase tickets were actually sold, or somewhat less than had been expected.

But to everyone's surprise, Deng Xiaoping visited Shenzhen, the CPC Central Committee decided to speed up its pace of reform and opening up in 1992, Shanghai was made a priority focus for reform and opening up, all jobs, including shareholding system and stock market pilot

projects, were sharply speeded up, and the original plans to issue only 100 million yuan of new stocks in 1992 were multiplied. Not long after the Spring Festival in 1992, when the news came of the first 1992 issue of new stocks worth 80 million yuan by seven shareholding enterprises, and that 10 percent of the holders of the over 2.07 million purchase tickets would be picked to buy the new stocks, these purchase tickets, which had formerly been given the cold-shoulder by most, suddenly became "hot-selling commodities." In particular, before Yanzhong and Dafeile stock prices were deregulated on 18 February, as the stock market was quiet and there were no stocks for sale, some stockholders transferred some of their money to the black market for large-scale purchases of purchase tickets, which drove up their price. By early March on the eve of the lottery drawing, the price a block of 100 consecutive-numbered purchase tickets had skyrocketed on the black market to 60,000 yuan, or up from the original sale price by 200 percent!

On 2 March, Shanghai held a lottery drawing for the first 1992 issue of new stocks by seven companies, such as No 2 Textile Machines, in which there were 214,000 winning purchase tickets, or 10.3 percent, enabling holders of blocks of 100 consecutive-numbered purchase tickets to buy all seven of these new stocks. While the buyers were wild with joy, those who had not bought purchase tickets were filled with regret.

After the first new stock offering was bought out, the news came that over 30 other new stocks would be offered in 1992, so that black market sales of purchase tickets remained very strong, with blocks of 90 not-yet-drawn consecutive-numbered purchase tickets bringing over 50,000 yuan for unsigned ones, and a little more than 30,000 yuan for signed ones. Recently, as the lottery drawing for the second new stock offering in early June approached, the black market price of purchase tickets went up again. So it seems that until 1992's new stock offerings are ended, black market trading in purchase tickets will remain a major strength of the Shanghai Stock Market in 1992.

## **3. The Experimental Price Deregulation to "One Market, Two Systems" Caused Sharp Ups and Downs and Market Eccentricity**

The resurgence of black market trading in purchase tickets is after all not an orthodox business. In order to break out of the Shanghai Stock Market's three-month stagnation, the Shanghai Stock Exchange suddenly announced on 17 February that beginning on 18 February, it would experimentally deregulate the prices of Yanzhong and Dafeile stocks, stipulating relevant declaration rules, with pricing units being 0.05 yuan for Yanzhong and 0.10 yuan for Dafeile, and maximum declarations not to exceed the preceding transaction by more than four pricing units. So 18 February was an exciting day for many holders of Yanzhong and Dafeile stocks. Early that morning, people flocked to all securities agencies throughout Shanghai and, by 0900 hours when their doors opened, poured in like water over a

dam, breaking down doors and windows at many of them. By the close of trading at 1530 hours, Yanzhong had shot up from the preceding day's close of 98.9 yuan to 168.4 yuan, or 70.27 percent, while Dafeile had also risen from 1,091.6 to 1,599.9, or 46.56 percent. In the following three weeks, stock market buying, which had been pent-up for almost four months, exploded like a volcano. Yanzhong and Dafeile stock prices climbed together, so that after a short 18 days of trading days by 12 March, Yanzhong had careened up to 373.49 yuan (reaching a high for the 12th of 380.09 yuan), or up 277.6 percent, with 768,469 shares having been traded, for a turnover rate of 84.5 percent, while Dafeile rose less because it had less shares on the market (only 21,000), but was still up 92.15 percent.

Yanzhong and Dafeile skyrocketed because of the so-called "one market, two systems" in which their prices were deregulated while other stocks continued to trade according to the original rules, but certainly not because of any inherent increase in their value. This "one market, two systems" artificially shrank the Shanghai Stock Market pie that was already very small. For instance, Xingye Real Estate's price remained unchanged at 88.2 yuan for over a month, while the daily trading volume of stocks, such as Vacuum Electronics, repeatedly set new zero records.

By 12 March, Yanzhong and Dafeile's market profit margins had topped 400 and 1,000, respectively, setting new world records for stock market profit margins. But by the afternoon close on that day, Yanzhong, which had more shares, was already showing signs of a turnaround, with considerable stagnation. On 13 March, there was a sudden shift in the lineups from buyers to sellers, so that trading dropped sharply, with a trading volume of only one-ninth that of the preceding day and prices beginning to plunge. In nearly two weeks between 16- 26 March, Yanzhong traded only 450 shares, including the 23rd when not even one share was traded! Yanzhong stockholders sank into a tragic state of hopelessness. At this time, the Shanghai Stock Market became an eccentric one in which one type of stock would not sell while others could not be bought! So after the deregulation of Yanzhong and Dafeile prices had brought a bustling three weeks, the stock market "died" again.

#### **4. The Lid Was Lifted Through Step-By-Step Explorations, Which Gradually Standardized the Distorted Stock Market**

On 27 March, five of the seven new stocks to be issued in 1992 went on the market. The fast turnaround from the close on 15 March to the opening on the 27th left stockholders amazed but happy.

But early on the 27th, the morning news broadcast that the Shanghai Stock Exchange had decided to apply trading rules for the new stocks of restricting rises or falls to 1 percent, but not controlling volume, and that the guidance prices of the five new stocks put on the market would be only a few tenths of a yuan higher than their

issue prices. When stockholders heard this, they were aghast. At these prices, even the luckiest investor who had bought only one purchase ticket that had been picked in the lottery would lose money when selling! Guided by such guidance prices that violated the most basic market rules, the stock market naturally sank into another state of "stagnation." Not one of the five new stocks was traded on the first day they were put on the market, and the investors who had lined up overnight had waited in vain.

But on the other hand, these new stocks that had appeared but were not being traded stimulated the deregulated-price Yanzhong stocks. The plunging, nearly dying Yanzhong stocks seemed to have been energized, suddenly rebounding on 30 March (Monday), leaping from 331 yuan to 340 yuan for a trading volume of 117,247 shares, and setting a new one-day trading record for a single stock on the Shanghai Stock Exchange. While they set another new record on Tuesday with a trading volume of 153,816 shares, the exceedingly high prices and market profit margins frightened Yanzhong stockholders, who had earlier watched Yanzhong stocks plunge, into taking the opportunity to sell and get out. So the Yanzhong rebound finally ended, with trading and investment dropping sharply beginning on Wednesday, and prices sliding once more. Afterwards, while Yanzhong rebounded temporarily from its low of 207 yuan, the gradual lifting of price restrictions on other stocks since mid-April made it impossible for Yanzhong to turn the tide, so that it finally fell to its proper market price.

On 13 April, the Shanghai Stock Exchange announced that it was abolishing the 3 percent circulation volume control, and was raising the price fluctuation restriction on the three stocks of Vacuum Electronics, Phoenix, and Xiaofeile from 1 percent to 5 percent. This finally began to lift the lid that had been on the Shanghai Stock Market for the preceding six months.

On the very day that these new measures went into effect, the stock market saw the end of its previous slump. The trading volumes of Yanzhong, Xiaofeile, and Phoenix were up sharply, and while the price of Vacuum Electronics was still low, so that its trading volume was temporarily less, it rose steadily. In short, except for the new stocks, all of the old stocks entered a phase of vigorous, spontaneous adjustment, with prices which were too high (such as Yanzhong and Phoenix) falling, and prices that were too low (such as Vacuum Electronics) rising to a given point where they experienced a natural fluctuation. This thoroughly changed the past situation of only rising or only falling, and began to put the trading of old stocks onto a normal track. Between 13- 30 April, stock trading reached 1.344 billion yuan, or 37 percent of the Shanghai Stock Exchange's securities business. During the one trading week of 20-24 April in particular, stock trading volume reached 575 million yuan, exceeding bond trading volume for the first time.

This partial freeing up of prices to normal stock market operation strengthened the hand of managers in

reducing administrative interference and their confidence in market forces. On 5 May, the Shanghai Stock Exchange decided to also raise the price fluctuation restrictions on three old stocks, such as Yuyuan, and the five new stocks from 1 percent to 5 percent. Thus, on the Shanghai Stock Market, in addition to Yanzhong and Dafeile being completely freed up to unrestricted market list-price trading, all other stocks use list-price trading with 5 percent price fluctuation restriction and no volume control, so that market rules are being basically followed. Since the lid has been lifted, trading and investment have been brisk, with sharp struggles between bulls and bears, and prices sometimes rising and sometimes falling, so that they are hard to predict. The general trend is one of setbacks followed by upswings, with the stock market being in a general state of equilibrium, but all stock prices becoming aligned and gradually adjusted to the position that suits their respective market profit margins. Even the five new stocks are being traded somewhat due to steadily rising prices, which are triumphantly driving on toward their proper values.

#### **5. New Stocks Are Appearing in Large Numbers, and Prospects Are Generally Good**

After June 1992, the Shanghai Stock Market will again issue over 200 million yuan in new stocks, in addition to putting a large number of corporate stocks and 30 million yuan worth of state-owned stocks on the market for purchase by individual investors. When some Dafeile corporate stocks were sneaked into market circulation on 8 May, they not only did not cause much of a shock, but their price even rebounded to over 2,000 yuan on the 11th due to the news of a stock split. And when almost 100,000 Vacuum Electronics labor stocks were also quietly thrown onto the market at a price of 1,500 yuan each, not only were they all snapped up by individual investors, but their price remained strong, rising 17 percent in the first week.

When the notice appeared in the newspapers on 14 May that Yongsheng Fountain Pen was going to raise capital by floating shares, this was the prelude to Shanghai's second new 1992 stock offering. It is believed that these newly issued stocks will also be put on the market within a month. It is understood that by the end of 1992, the Shanghai Stock Market will have 70 stock companies (including ones from other places in China), and that the Shanghai Stock Exchange will have 100 members (brokers). As the Shanghai Stock Market will then have millions of investors and almost 10 billion yuan in capital, the experts are generally optimistic about the Shanghai Stock Market's 1992 prospects.

As to future market prospects, I agree with the analysis in *One Person's View* in the 16 May issue of JINRONG ZHENGQUAN XINXI [FINANCIAL SECURITIES NEWS] that "Shanghai stocks are already in a gradual regulation and control transition from administrative means to full market forces. The following factor that will affect future market trends warrants attention: While deregulation of all stock prices is only a matter of

time, the Shanghai Stock Market mindset of moving forward quickly in small steps will gradually dovetail old and new stocks, and the Shanghai Securities index will continue to climb slowly, neither skyrocketing, or even less so plunging." Of course, if its managers' particular regulation and control measures (such as top-level market fixing of spillover price multiples) are even slightly incorrect, the stock market may become either overheated or overcooled. In which case, it would be hard to prevent partial "stock disasters," as when Yanzhong skyrocketed and then plunged.

#### **III. B Stocks in Shenzhen and Shanghai: A Critique and Forecast**

On 21 February 1992, Shanghai Vacuum Electronics Co Ltd B stocks were put on the market for trading on the Shanghai Stock Exchange. A week later on 28 February, Southern Glass Co Ltd B stocks were also put on the market for trading on the Shenzhen Stock Exchange. The first day trading of these two B stocks was outstanding, with Vacuum Electronics B stocks starting at \$72, reaching a high of \$92, and closing at \$88.50, or up 23 percent, and Southern Glass B stocks starting at 4.8 yuan, rising to 5.75 yuan before the first transactions were concluded, and closing at 6.85 yuan. This was a fine beginning for China's tiny B stock market. Increasing numbers of foreign investors are starting to look with excitement at this newly rising market, and its participants are beginning to increase.

Meanwhile, Shanghai and Shenzhen are paying particular attention to their B stock market development, by taking a series of positive steps in the areas of market standardization and internationalization. For instance, Shenzhen has already put into effect provisional regulations for shareholding companies, which guarantee investors' rights and interests, and have become a vital piece of favorable news for the Shenzhen Stock Market, while Shanghai's shareholding company regulations are already past their 11th draft, so that there are great expectations that they will be announced and put into effect by mid-year. In addition, much progress is also being made in streamlining procedures for investing in B stocks.

By March, Shanghai's B stock market still had only the one B stock of Vacuum Electronics, with no new B stocks being offered or marketed. While its trading volume was averaging some thousands a day, and its price was fluctuating in a narrow range between \$70 and \$81, it began to gradually fall, and its trading volume also shrank slowly to an ordinary daily trading volume of only hundreds or even just dozens.

Vacuum Electronics B stock was down to \$72 by 3 April and \$71.50 by the sixth, already approaching its \$70.90 issue price. By mid-April, it was revitalized through low-price trading, and its trading volume rose somewhat. By late April, it was gradually becoming clear that it had bottomed out, with the confidence of foreign investors beginning to increase, and trading and investment



becoming brisker. In the week of 27 to 30 April, its daily trading volume was over 15,000 shares, except for on the 27th when it was only 5,950 shares, reaching 15,380 on the 28th, 17,920 on the 29th, and 19,390 on the 30th. Moreover, it continued to climb, reaching 58,000 shares for the week, up 400 percent from the preceding week, with its price being quoted at \$80 by the close on the 30th. But by May, it had reversed again, with the price falling slightly.

In Shenzhen, the B stock market was another matter. After Southern Glass B stocks went on the market, other B stocks, such as Zhonghua Bicycle, Kangjia Electronics, Shenzhen Materials, Huafa Electronics, and Shenzhen Petrochemicals, were put on the market for trading. Moreover, After Southern Glass B stocks went on the market, the Shenzhen Stock Exchange stopped setting "guidance prices" for new B stocks when they were first put on the market, leaving opening prices to be determined completely by market forces. After these new B stocks were put on the market, their prices rose in a narrow range, showing relative stability, becoming a powerful driving force in helping the Shenzhen Stock Exchange stock price index to steadily set new records, and performing splendidly.

After 20 April, all Shenzhen B stocks rose, with the Shenzhen Materials B stock price rising a rare 9 percent on the 21st, and the Kangjia Electronics B stock rising an

even greater 12 percent on the 22nd. On the 23rd, when the Hong Kong Hang Seng index broke through the 5,300 mark, all Shenzhen B stocks rose, with the four B stocks up 13.7-27.8 percent by the close, and Southern Glass B stocks making a particularly good showing. In that week, the Shenzhen stock price index rose from 201.3375 to 213.28, which could not have occurred without the driving force of the B stocks.

When Huafa Electronics B stock was put on the market on 28 April, this increased Shenzhen's B stocks to five. On that day, Huafa Electronics opened at 7 yuan, hitting a low of 6.5 yuan and a high of 7.2 yuan, but closing at 7 yuan. When Shenzhen Petrochemicals B stocks went on the market on 6 May, Shenzhen's B stock market became even busier. On that day, Petrochemicals B stock opened at 7.5 yuan, reached a high of 9.8 yuan, and closed at 9.6 yuan. In the following two days, Petrochemicals B continued to be favored by investors, rising 4.1 percent on the 7th and 7 percent on the 8th.

Generally speaking, Shenzhen's B stock market is currently brisker than Shanghai's, with the financial data, such as market profit margins, showing that Shenzhen's B stocks are more competitive than Shanghai's Vacuum Electronics B stock.

For the relevant data concerning the seven B stocks on the Shanghai and Shenzhen markets by mid-May, see the following table:

Summary of B Stocks on Shanghai and Shenzhen Markets

	Shanghai Vacuum Electronics	Southern Glass	Zhonghua Bicycle	Shenzhen Kangjia	Shenzhen Materials	Huafa Electronics	Shenzhen Petrochemicals	Shenzhen Chinese Cookware (about to be put on the market)
Number of A Shares	2,000,000	91,500,000	80,495,333	80,496,700	227,500,000	122,900,000	123,900,000	74,400,000
Number of B Shares	1,000,000	16,000,000	120,890,667	58,372,300	30,000,000	70,100,000	15,000,000	12,000,000
Number of B Shares in Market Circulation	1,000,000	16,000,000	25,500,000	10,000,000	30,000,000	23,500,000	15,000,000	12,000,000
Issue Price	420.00	3.98	3.75	3.90	3.60	2.02	3.24	3.21
Market Price on 15 May	464.00	13.60	15.60	17.00	17.00	10.70	16.00	
Increase in Price	10.48%	241.71%	316.00%	335.90%	372.22%	430.36%	393.22%	0.00%
Estimated 1991 Market Profit Margin	24.81	47.22	29.55	24.71		41.96	45.71	
Predicted 1992 Market Profit Margin	19.33	46.90	28.01	29.72	58.62	37.81	44.44	12.16
Predicted 1993 Market Profit Margin					54.84			
B Stock Market Value (RMB)	464,000,000	217,600,000	397,800,000	170,000,000	510,000,000	251,450,000	240,000,000	38,520,000
B Stock Market Value (U.S. dollars)	\$74,039,796	\$34,722,111	\$63,476,360	\$27,126,650	\$81,379,949	\$40,123,506	\$38,296,446	\$6,145,580

The outlook for China's B stock markets in Shanghai and Shenzhen will certainly expand sharply in size in 1992. The central government has clearly granted Shanghai the right to

issue B stocks with a face value of \$100 million. The government work report which came out of the Fifth Session of the Ninth Shanghai People's Congress has confirmed

that it will expand the stock market in 1992 and continue to issue more special RMB and B stocks. At the annual meeting of the Asian Bank, Li Guixian, PRC State Councilor and president of the People's Bank of China, expressed satisfaction at China's success in issuing B stocks, while announcing that Shanghai and Shenzhen would issue more B stocks. Thus, it can be predicted that the expansion of China's B stock markets will mean more circulation of B stocks, which will attract more money from foreign investors, institutional investors in particular.

In fact, since Shanghai's Vacuum Electronics B stock was issued successfully, intense preparations have been underway for the offering of several additional B stocks. Various foreign securities traders have been pouring into Shanghai to make contacts with Shanghai securities companies and B stock issuing units, sharply competing to underwrite B stock business.

Meanwhile, along with the shareholding craze that has been sweeping across China, many Shanghai enterprises are seizing the opportunity not only to reorganize from state-owned enterprises to limited-liability companies, in order to acquire more independent decisionmaking power, but also to combine two steps into one, by issuing not only A, but also B stocks, so that they can convert into the three types of foreign trade enterprises, in order to enjoy more preferential policies.

For instance, the Shanghai Yongsheng Fountain Pen Factory, which makes the famous "Yongsheng brand" fountain pens that are hot-sellers both in China and abroad, has already won approval to reorganize into a limited-liability company, which will issue 12 million yuan worth of A stocks and 25 million yuan worth of B stocks in the near future. While the major underwriter of this B stock issue is the Shanghai Shenyin Securities Co, its foreign traders are Russel & Sons Co Ltd (Hong Kong) and the Chaofu Securities Co Ltd, which signed underwriting agreement documents on 18 May.

Another example is the Shanghai Tire Company, which has famous subsidiary plants such as Zhengtai and Dazhonghua and China's biggest tire manufacturer, had profits in 1991 that accounted for more than half of the 59 tire manufacturers throughout China. This company has long been planning to convert into a Sino-foreign joint venture. Under the reorganization plan, the Shanghai Tire and Rubber Co Ltd has been approved, and will begin issuing mostly B stocks.

Other factories that are planning to issue B stocks are the Shanghai Chlorine Soda Plant and the Zhonghua No 1 Pencil Factory. The Shanghai No 2 Textile Machinery Co Ltd, which has just been converted from a state-owned enterprise, is also striving for the right to issue B stocks in 1992.

In Shenzhen, the B stock market will also gradually expand in size in the near future. Shenzhen has already made preliminary plans for some years of stock market development, and is getting ready to issue B stocks with

a face value of \$1 billion to \$1.5 billion, in order to raise from \$3 billion to \$4 billion in foreign exchange.

Experts and scholars from many international financial institutions are quite optimistic over the newly rising B stock markets in Shanghai and Shenzhen, while also pointing out many areas in which progress is urgently needed. Kuan Chia-ming [7070 1367 2494], vice president of the Mellon Securities Company's Asian Research Department, points out that as China's stock markets "are macroeconomically very attractive but in need of continued microeconomic progress, China's capital market institutions are still in an initial stage with unlimited development potential."

## FOREIGN TRADE, INVESTMENT

### North American, Oceanian Countries Imports Jan-June

HK1108102592 Beijing CEI Database in English  
11 Aug 92

[Text] Beijing (CEI)—Following is a list showing the value of China's import from North American and Oceanian countries and regions in January-June 1992, released by the General Administration of Customs:

	1-6/1992	1-6/1991
	(Unit: 10,000 U.S. dollars)	
Country and Region	Import	Import
North America	485,087	
Canada	99,202	59,340
United States	385,859	317,758
Greenland	17	
Bermuda	9	
Other North American countries and regions		-
Oceania	77,040	
Australia	62,263	65,700
The Cook Islands	46	
Fiji	816	
Nauru		-
New Caledonia		-
New Zealand	13,548	6,579
Norfolk Island		-
Papua New Guinea		301
Solomon Islands		-
Tonga		-
Tuvalu		-
Other Oceanian countries and regions	67	

**Import From Non-EC, Non-EFTA Countries  
Jan-June***HK1108101792 Beijing CEI Database in English  
11 Aug 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's import from European countries and regions other than EEC and EFTA in January-June 1992, released by the General Administration of Customs:

	1-6/1992	1-6/1991
	(Unit: 10,000 U.S. dollars)	
Country and Region	Import	Import
Albania	11	317
Andorra		8
Bulgaria	2,574	4,676
Czech and Slovak	9,435	7,145
Gibraltar		2
Hungary	1,131	2,601
Malta		5
Monaco		285
Poland	2,965	6,367
Romania	8,984	9,007
San Marino		-
Yugoslavia	2,735	3,022
Estonia		1,432
Latvia		0
Lithuania		102
Georgia		43
Armenia		-
Azerbaijan		-
Belarus		1,773
Kazakhstan		5,566
Kyrgyzstan		291
Moldova		1
Russia		124,858
Tajikistan		17
Turkmenistan		6
Ukraine		2,377
Uzbekistan		424
Other European countries and regions		-

**Import From EFTA Countries Jan-June***HK1108101292 Beijing CEI Database in English  
11 Aug 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's import from European Free Trade

Association (EFTA) countries in January-June 1992, released by the General Administration of Customs:

(Unit: 10,000 U.S. dollars)		
1-6/1992	1-6/1991	Country and Region
Import	Import	EFTA
	73,074	Austria
15,879	17,891	Finland
12,505	8,770	Iceland
	14	Liechtenstein
	64	Norway
8,543	10,087	Sweden
15,723	16,075	Switzerland
20,347	22,615	

**Exports to EC Countries Jan-Jun***HK1008115692 Beijing CEI Database in English  
10 Aug 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's export to EC countries in January-June 1992, released by the General Administration of Customs:

	1-6/1992	1-6/1991
	(Unit: 10,000 U.S. dollars)	
Country and Region	Export	Export
Europe	454,175	
EC	322,336	310,910
Belgium	24,019	17,341
Denmark	6,291	6,430
Britain	37,109	32,813
Germany	101,204	108,169
France	34,294	32,430
Ireland	882	1,073
Italy	47,789	43,626
Luxembourg	24	22
The Netherlands	51,816	53,519
Greece	3,150	2,815
Portugal	1,641	1,947
Spain	14,117	10,723

**Exports to Non-EC, Non-EFTA Countries  
Jan-June***HK1008120692 Beijing CEI Database in English  
10 Aug 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's export to European countries and regions other than EEC and EFTA in January-June



1992, released by the General Administration of Customs:

	1-6/1992	1-6/1991
	(Unit: 10,000 U.S. dollars)	
Country and Region	Export	Export
Europe	454,175	
Albania	15	729
Andorra	36	
Bulgaria	767	556
Czech and Slovak	925	1,693
Gibraltar	280	
Hungary	902	844
Malta	774	
Monaco	35	
Poland	2,713	2,775
Romania	1,676	3,802
San Marino	11	
Yugoslavia	665	1,874
Estonia	283	
Latvia	109	
Lithuania	18	
Georgia	44	
Armenia	55	
Azerbaijan	101	
Belarus	180	
Kazakhstan	10,372	
Kirghistan	282	
Moldova	5	
Russia	76,844	
Tadzhikistan	47	
Turkmenistan	49	
Ukraine	1,589	
Uzbekistan	1,346	
Other European countries and regions		-

#### Exports to EFTA Countries Jan-June

HK1008123092 Beijing CEI Database in English  
10 Aug 92

[Text] Beijing (CEI)—Following is a list showing the value of China's export to European Free Trade Association (EFTA) countries in January-June 1992, released by the General Administration of Customs:

	1-6/1992	1-6/1991
	(Unit: 10,000 U.S. dollars)	
Country and Region	Export	Export
Europe	454,175	
EFTA	31,716	
Austria	2,676	2,605
Finland	2,889	2,999
Iceland	32	
Liechtenstein	2	
Norway	9,397	2,148
Sweden	9,687	5,795
Switzerland	7,033	8,326

#### Exports to North American, Oceanian Countries Jan-June

HK1008123792 Beijing CEI Database in English  
10 Aug 92

[Text] Beijing (CEI)—Following is a list showing the value of China's export to North American and Oceanian countries and regions in January-June 1992, released by the General Administration of Customs:

	1-6/1992	1-6/1991
	(Unit: 10,000 U.S. dollars)	
Country and Region	Export	Export
North America		353,962
Canada	27,592	23,849
United States	326,361	251,049
Greenland	8	
Bermuda	1	
Other North American countries and regions		-
Oceania	32,642	
Australia	27,515	24,195
Cook Islands	9	
Fiji	766	
Nauru	16	
New Caledonia	22	
New Zealand	3,336	2,534
Norfolk Island	5	
Papua New Guinea	579	
Solomon Islands	43	
Tonga	60	
Tuvalu		-
Other Oceanian countries and regions	293	

**Total Value of Foreign Trade Jan-June**

HK1008114292 Beijing CEI Database in English  
10 Aug 92

[Text] Beijing (CEI)—Following is a list showing the total value of China's foreign trade in January-June 1992, released by the General Administration of Customs:

	(Unit: 100 million U.S. dollars)	
	1-6/1992	1-6/1991
Total	686.60	571.23
Export	356.15	303.40
Import	330.44	267.82

**LABOR****Pension, Unemployment Insurance Reforms**

92CE0496A Beijing GUANLI SHIJIE  
[MANAGEMENT WORLD] in Chinese  
No 2, 24 Mar 92 pp 97-102

[Article by Topic Group on Near-Term Reform Measures and Steps: "Near-Term Pension and Unemployment Insurance Reforms"; Writers: Yue Songdong (1471 7313 2639), Ge Yanfeng (5514 1693 7364), Social Research Section, Center for Developmental Studies, the State Council]

[Text] The 10-year plan and Eighth Five-Year Outline Plan have pointed up a clear direction and laid down the basic principles of and sketched a broad framework for the reform and development of social insurance in China. The question now is this: How can the direction and basic principles of reform mentioned above be made specific and become reform measures and implementation steps that can actually be put into effect?

### 1. The Social Insurance Situation and Inadequacies of Existing Practices

The reform and improvement of China's pension system must be based on national conditions and future economic and social development trends. We need to identify the dominant development trends from among a maze of conditions that make up the reality and analyze the shortcomings of the current system to determine what direction we should take in our reform.

1) With a population that is aging rapidly, China has a heavy burden ahead supporting its elderly. Since China adopted a policy of family planning in the 1970's, the birthrate has dropped and the average life expectancy has increased. Children make up a sharply reduced portion of the population while that of the elderly has risen. Children between the ages of 0 and 14 constituted 27.7 percent of the population in 1989, down from 40.7 percent in 1964. The elderly aged 65 and older accounted for 5.8 percent of the population in 1989, up from 3.6 percent in 1964, and are projected to make up

7.4 percent of China's population by the year 2000. According to UN definitions, China will be a country with a geriatric type of demographic structure. Since its population is aging so rapidly and relentlessly, the existing pay-as-you-go retirement system will not be able to withstand the enormous payment pressures that will come. The transition from the old system to the new cannot be effected overnight. It is necessary to give social insurance a period of primitive accumulation. The question now is this: Do we have enough lead time to put social insurance on a sound footing before the population has aged significantly? Based on the minimum number of years that must elapse before a policy-holder is eligible for elderly benefits, about 15 years separate the time between the pension fund starts accumulating and the day when its first batch of beneficiaries can begin to collect their pension payments. In other words, even if we introduce the new system today, the soonest the transition from the old system to the new can be completed will be after 2005, perhaps even later if we wait for the retirement fund to be paid off under the old system. Therefore, we must introduce the new system as soon as possible and do everything we can to complete the transition from the old system to the new before the population begins to age on a large scale. Otherwise we will certainly find ourselves merely trying to keep up with developments.

2.) The coverage of the present system is too narrow, which militates against social stability, rural family planning, and the normal circulation of the labor force. At present China's pension and retirement system only covers the workers of state departments, institutions, state enterprises, and some collective enterprises. The workers of township and town enterprises, the employees of Chinese partners in the three kinds of enterprises that are either partially or wholly foreign-owned, the workers of private enterprises, self-employed individuals, and the overwhelming majority of peasants are not covered by any pension or retirement insurance system at all. Currently there are 22 million retirees in China, merely 23.5 percent of the nation's elderly population; three-quarters of old people in China do not collect any pension. This situation does not do anything to promote social stability. In addition, enterprises and institutions under different ownership systems offer significantly different pension benefits. No doubt this hampers the normal circulation of the labor force and qualified personnel. To keep their existing pension benefits, many people balk at taking up jobs which can make better use of their abilities. In macro terms, this is a waste of manpower and intellectual resources.

Of China's 1.15 billion people, 80 percent reside in the countryside. Rural elderly account for about 77 percent of the nation's total elderly population. After they get married, most young people in the countryside these days do not want to live in the same house with their elders. Hence the increase in nuclear families and the weakening in inter-generational ties. As their economic status declines, the elderly have less control over

domestic economic matters. Some older people have no steady source of income and are not being taken care of in their daily lives. What is happening to the elderly is an object lesson for young people; it has reinforced to them the importance of children as an insurance policy against old age. Most people have children as a safeguard against old age. To maximize their insurance coverage, they want multiple children. As a result, it is not uncommon for people to have more children than allowed or to give birth outside the law. On the other hand, in places that have introduced an only-child pension system, people voluntarily choose not to use their second-child quota. This is positive and negative evidence that a rural pension system is basic to successful family planning in the countryside. It is imperative, therefore, that the coverage of the pension system be broadened gradually, economic resources permitting.

3) There is only one source of funding, the payment system remains to be improved, and the managerial agencies get in each other's way. In the existing system, the pension fund is financed by just one source; it is primarily the government's responsibility. There is a variety of payment collection standards and payment channels are rather confusing. On the eligibility end, a worker with just 10 years of service is eligible to collect pension, which seems a little too short. As far as the administration of the system is concerned, state enterprises are taken care of by labor departments while collective enterprises are the joint responsibility of labor departments and insurance companies. This situation is understandable at a time when the pension system is still in its infancy. Nevertheless, fragmented management and decision-making will necessarily lead to organizational overlapping, over-staffing, equipment duplication, and inflated operating costs. In the administrative process, agencies argue back and forth over trifles and hamper one another's work.

## 2. Principles To Be Followed in Establishing a Pension Insurance System

To establish a new pension and retirement insurance system, we need to study the universal laws determined by modern mass production and the commodity economy and experienced by the whole world, on the one hand, and relate them closely to the reality in China, on the other, thereby establishing a clear set of guiding principles.

1) Insist that rights and obligations go hand in hand. The basic pension insurance of workers in townships should become a national statutory pension insurance system. It should be established by formal legislation and made mandatory under the law. All workers in society whose principal source of income is wages and all enterprises of all kinds who operate in accordance with the law must take part in a statutory pension and retirement insurance system. Every enterprise and every worker who has wages as a source of income has the obligation to make contributions to the pension insurance fund as required by law and is entitled to pension benefits as provided by

law. Fulfill one's obligation first. After that one can enjoy one's right. That way rights and obligations go hand in hand and the principles of social justice and mutual aid are realized.

2) Adhere to the principle of differentiating between the city and the countryside and between different regions. The history of social insurance systems proves that social insurance is the product of socialized mass production, the need for which grows as the family's role in taking care of its elderly diminishes and the mobility of the population increases. Right now there are striking differences between the city and the countryside, between industry and agriculture in the degree of production socialization, in employment structure, in the social distribution structure, and in consumption structure. It follows that mandatory insurance in the city cannot be mechanically duplicated in the countryside and that different practices should be permitted in the city and the countryside. In economically underdeveloped villages, everything should be done to create the conditions for the gradual introduction of a social insurance system. Affluent villages should experiment with social insurance and use the experience acquired to popularize it. Because of unevenness in the level of economic development across the nation, localities should be allowed to adopt different accumulation rates and withdrawal standards for their pension funds depending on their own level of economic development and the residents' living standards.

3) Adhere to the principle that the old system gives way to the new in a smooth and steady transition and that the interests of all three parties—the state, the collective, and the individual—be taken into consideration. In raising money for a statutory pension insurance fund in a township, we must be mindful of the need for a smooth transition from the old system to the new and adopt the "new people, new system, old people, old method" approach to enhance society's ability to cope with the new system. State enterprises should wait for a favorable time to shift from the centralized raising of pensions to a pension insurance program smoothly. As for collective enterprises in townships, private enterprises, the three kinds of enterprises that are either partially or wholly foreign-owned, and individual industrial and commercial enterprises created in recent years, they need not start with the old system but may directly adopt the new social insurance system instead. Whether moving from the old to the new system or adopting a new system, the respective responsibilities of the state, collective, and individual in the area of social insurance must be determined equitably, taking into account both short-term and long-term interests. Their respective responsibilities should be determined in a way that promotes social stability, on the one hand, and ensure economic development now and in the future, on the other. The practice of having the state and enterprises assume sole responsibility must be firmly put to an end.

4) Combine basic insurance with supplementary insurance, universalization with improvement. National statutory social insurance can only ensure a minimum subsistence for workers in society. The level of benefits cannot be too high, this being the only way to stretch limited financial resources to provide a broader coverage and make social insurance as universal as possible in society. At the same time, units so qualified should be encouraged to set up a supplementary social insurance system. This will stimulate the workers' enthusiasm for production during their period of employment with the enterprise and make the enterprise a stronger coalescing force. As output rises, so does the workers' standard of living after retirement. In addition, individuals should be encouraged to open quasi-savings accounts, using preferential interest rates as an incentive.

5) Adhere to the principle of centralized planning, classified management, and coordinated operation. Establishing a social insurance system is a massive piece of social systems engineering. It is highly political and touches upon a wide area, so meticulous planning and good organization are imperative. In the early days of the system, there is necessarily a period when management is fragmented among a number of agencies. Still it is necessary to bring it under unified planning and management over time. For some time at least, we should continue to approach social insurance under different ownership systems with the principle of differential treatment and classified guidance. The same principle should be applied to urban and rural social insurance systems. Ultimately, however, we should move in the direction of centralized planning, unified management, and unified organization so as to reduce organizational overlapping and fragmented policy-making, and break the old habit of departments wrangling with one another over trifles and getting in one another's way. Another benefit is that operating costs will go down and economic and social benefits would increase.

### 3. Basic Philosophy and Measures for Reforming Social Insurance

1) Expand the scope of social insurance to include all sorts of enterprises, organizations, and institutions in townships and towns. Create a multi-layer insurance system featuring a mix of basic insurance, enterprise-provided supplementary insurance, and individual retirement accounts. Social insurance should adopt the financing method of partial accumulation. The pension fund should be made up of basic insurance, seniority insurance, enterprise-supplemented insurance, and personal contribution.

Basic insurance should equal 30 percent of the average wage in the locality in question for the preceding month. As average local wages increase, so will the basic pension. This satisfies the requirement that social insurance fully share the fruits of social development.

Seniority pension is pegged to the wages of the worker in question and represents his contribution to society as

measured by his length of service. Use the highest monthly wage he is being paid before retirement as the base and pay the worker 1 percent of the base figure for each full year in which he pays retirement insurance premium.

As for elderly workers nearing retirement, their years of service defined in accordance with past national regulations may count as years of payment. This way the sum of the basic pension and seniority pension will roughly equal 50 to 60 percent of a worker's pre-retirement wage. According to calculations by agencies concerned, a worker will collect 9 yuan more in social insurance under the new system as compared to the existing system. The pensions of new entrants into the ranks of the retired will require 150 million yuan in additional spending each year, while those of workers already retired will cost an additional 2.6 billion yuan, for a total of 2.75 billion yuan. On the other hand, the new system requires each worker to pay part of the pension insurance premium after his wage is increased, say 3 percent of his basic wage. This will generate 5.6 billion yuan in revenue each year, more than the additional spending. In other words, the new system will not impose a new burden on the state and enterprises.

The basic pension fund and seniority pension are to come from the enterprise before income tax to be paid monthly by the bank in which the enterprise has an account. The enterprise supplementary pension will come from the enterprise bonus fund. The amount will be based on the worker's performance and his contribution to the enterprise and, after discussion by the workers' representative assembly and approval by the factory manager and director, will be recorded in the individual's social insurance handbook. Considering that state departments and institutions have no financial resources to fund a supplementary pension fund, the length of service pension should be increased to 1.5 percent to 2 percent of the worker's basic wage.

2) Starting with the next round of wage increase for state enterprises, state departments, and institutions, it is proposed that 3 percent of a worker's standard wage be withheld as his personal contribution to the pension fund, increasing 1 percent every five years in the future. That way a worker about to retire will pay 3 to 4 percent of his standard wage each month as long as he remains on the job; a middle-aged worker will pay between 3 and 7 percent of his wage, while a young worker will pay between 3 and 10 percent, reaching the upper limit probably in the 2020's or 2030's. Right now elderly workers are paying more in absolute terms but their contribution period is short. On the other hand young workers are paying absolutely less now but will do so for a longer period of time. They will be paying progressively more over time, but since the increase is gradual, it will be bearable.

3) Collectively owned enterprises should raise funds in society as a transitional measure to ensure the basic solvency of the basic pension fund. The enterprises may



themselves secure their own supplementary pension fund. As for personal-contribution pension fund, it can follow the practices of state enterprises. After opening their doors for three years, township and town enterprises have a low employee turnover rate and enough financial resources to do what collective enterprises do. The three kinds of enterprises that are either partially or wholly foreign-owned, individual households, and private enterprises also should introduce social insurance to their employees as soon as possible. When units under these various ownership systems offer social insurance, they will be promoting social stability, narrowing the income gap between employers and employees, moderating the problem of inequitable social distribution, checking premature consumption, and increasing social accumulation. An enterprise can buy an insurance policy from an insurance company, to be paid for primarily by enterprise funds. Some enterprises may not be able to pay for social insurance. In this case, individuals also can make contributions to the fund at a rate broadly similar to that followed by collective enterprises or agreed upon in a contract between the employer and employee. The employer cannot refuse to offer pension insurance to his employees whatever the pretext.

4) For the moment state enterprises follow centralized planning in the area of social insurance. This practice plays a big part in easing the problem of unequal pension burden on enterprises and creating a fair competitive environment. But raising funds from society is not a scientific insurance system and is neither institutionalized nor statutory. It can only be regarded as an expediency for the duration of the transition from the old system to the new. We should gradually create conditions to bring about a structural social insurance system complete with a pension and retirement insurance handbook and social insurance number system. Every worker on the job and every retired worker should have a copy in hand recording each month the accumulated amount. The worker should be able to move freely as he changes job, unrestricted by ownership system or seniority.

5) Experiment with the social insurance system at selected points. Gradually popularize the rural grassroots social insurance system with its different set of standards. In impoverished areas, we should do a good job in providing aid and relief to the peasants so that their basic needs for food and clothing are met. In moderately developed areas where basic needs have been met, we should initiate welfare undertakings and launch mutual aid savings activities of a mass nature. In both kinds of areas, we must work hard to lay the economic foundation for social insurance by achieving economic prosperity. As for affluent areas, they should build on the work mentioned above and develop social insurance. A distinction may be made between policy-holders engaged in industry, policyholders engaged in agriculture, and policy-holders in both industry and agriculture. The size of payment is to be determined based on reality.

In the countryside, social insurance is to be first introduced in affluent areas with a per capita income of

around 1,000 yuan, probably using the township as the unit. Insurance premiums should primarily come from the collectives and individuals, with the state providing the necessary assistance. The criteria in determining the size of the premiums should be the ability of the policyholders, that is, collectives and peasants, to pay and the need to ensure a minimum standard of living for the elderly. Use a combination of the pay-as-you-go system and advance accumulation. Set up a township (town) social insurance committee to manage it. To ensure that pension funds do not depreciate, we may initiate value-protected savings until the state draws up the appropriate laws and regulations and set up a specialized bank.

In impoverished areas, pilot projects also may be carried out with the active support of local peasants. For instance, we may set up retirement mountains, retirement forests, and retirement orchards; instead of giving the elderly a pension, get the work done for them. Each year rural youths may be required to do voluntary work for a specified number of hours or days. With a cooperative approach to elderly care, we turn elderly care from a responsibility for the individual family into one shared with the township-based community.

Even as we establish social institutions to provide for the elderly, we should make the most of the family as a provider. A family member, for instance, may help the elderly pay part of his contribution to a pension fund. Strictly abide by the principle of combining family elderly care with self-accumulation by the elderly and young people providing labor in lieu of monetary contributions. Encourage villages everywhere to create their own methods of providing for the elderly that are suited for popularization locally. No attempt should be made to impose one method across the board.

The establishment of a rural social insurance system should be integrated with the popularization of family planning. Where the elderly person in question belongs to a one-son, one-daughter, or two-daughter household, his case should be given preferential treatment as much as possible. These days some localities are using health subsidies earmarked for the only daughter or only son as pension accumulation for his or her parents. The money is paid to an insurance company so that a few decades from now the parents will be eligible to collect pension each month. This is an effective means to relieve the parents of an only child of their worry. Similar practices should be reviewed over time for replication elsewhere.

6) Take pains to ensure that pension funds keep their value and even appreciate in value, and set up a social insurance bank. Since inflation will necessarily lead to the depreciation of pension funds, we must be careful to ensure that they not lose their value. The state should draw up special laws and regulations to provide the legal guarantee. Furthermore, a nation-wide social insurance bank should be set up when the time is right to specialize in the depositing, management, raising, issue, and investment of pension funds. Guided by the appropriate laws and regulations, it shall determine the scope of

investment, direction of investment, and methods of investment. The state should adopt a preferential policy to make pension funds inflation-proof and even appreciate. The interest charged by the bank on its loans, investment dividends, profits, and other incomes should be tax-exempt or taxable at lower rates.

7) Strengthen leadership, establish a unified management agency, and do a good job in organization and implementation. For the moment, social insurance work is divided among several agencies. This is understandable when the system is still in its infancy. But the experience in social insurance demonstrates the need for a sound management system and a social insurance commission in the State Council to unify and coordinate the social insurance work of the planning, labor, personnel, civil administration, finance, public health, education, banking, insurance, and tax agencies. In the short run we may consider first setting up a State Council social insurance leading group to take charge of formulating a nation-wide social insurance program and implementation plan and drafting the relevant laws and regulations. This is an enormously important and urgent matter. We should plan for it as soon as possible, doing our best to get it off and running in the first part of the Eighth Five-Year Plan.

#### 4. The Basic Philosophy and Measures for Reforming the Unemployment Insurance System for China's Enterprise Workers

In 1986 the State Council promulgated the "Provisional Regulations for the Unemployment Insurance of State Enterprise Workers" and unemployment insurance was born. During the past five years, over 2,000 special offices have been set up in labor departments across the nation, improving the collection and payment of unemployment insurance funds. Altogether 2 billion yuan was raised and 200,000 unemployed workers were provided with relief. Moreover, a host of re-training and production job-change self-help bases were established, preparing the unemployed to re-enter the work-force. The establishment of an unemployment insurance system has created the social conditions for reforming the labor system at enterprises, introducing a labor contract system, and stimulating the reasonable circulation of manpower. Be that as it may, the current unemployment insurance system only covers some of the personnel of state enterprises. Its scope is too narrow and the level of insurance benefits is too low. It is a weak system and falls far short of meeting the needs of adjusting the employment structure, energizing enterprises, and deepening the reform of the unemployment insurance system. It is imperative that we expand the scope of unemployment insurance, perfect the unemployment insurance system, and deepen unemployment insurance reform.

The purposes of setting up an unemployment insurance system are to ensure a basic livelihood for the unemployed before they land another job, stabilize the social order, and maintain social stability. These objectives are widely regarded as important and fully understood. But

these are by no means the only reasons for setting up an unemployment insurance system. It also contributes to the adjustment of the industrial structure, the relatively free circulation of manpower, and the rational allocation of capital goods. Moreover, it increases the interest of the unemployed in looking for a job and their enthusiasm for re-training, thereby injecting new vitality into the national economy.

A few years ago enterprises went in for optimal organization in a big way but still found themselves unable to dismiss redundant workers. The most an enterprise can do is to reshuffle its redundant employees. This has complicated the quest for better productivity. Some enterprises are burdened with swollen inventories, which ties up a large amount of funds, and are staggering under the weight of "triangular debt." Normally such enterprises should be closed, merged, or switched to other lines of product. But because the unemployment insurance system is incomplete, and considering the political factor of social stability, there is no choice but to let these enterprises carry on. The adjustment of the industrial structure has become nothing more than a slogan, its implementation delayed again and again.

Recently the State Council issued the "Circular Concerning the Strict Restriction of the Continued Production of Overstocked Goods," unveiling a "support-the-superior-and-limit-the-inferior" policy. As a result, some enterprises would have to be closed and a host of workers would become unemployed. Meanwhile, as other enterprises undergo comprehensive technological transformation, modernize their equipment, and switch to other lines of product, some workers also would find themselves out of a job and in need retraining. Also, as large numbers of enterprises toughen labor management and enforce labor discipline, they would necessarily cut back on their redundant personnel by dismissing some unqualified employees. Furthermore, the deepening of labor reform and the adoption of a contract system for all personnel will also increase the ranks of the unemployed. Hence the urgent need to provide these unemployed workers with unemployment insurance. Without improving the unemployment insurance system, the adjustment of the industrial structure and the reform of the labor system will come to nothing. This is why we propose a basic framework for strengthening the unemployment insurance system.

1) Enlarge the scope of unemployment insurance. Unemployment insurance should cover all workers recruited from urban areas, including the workers of enterprises which have declared bankrupt, workers laid off by enterprises tottering on the brink of bankruptcy during the legally mandated period of reorganization, workers laid off by enterprises whose closing or suspension has been approved by the government, workers temporarily out of work during a plant closing or suspension, workers whose contracts were terminated by their enterprise, and workers who have been dismissed.

2) Build up the unemployment insurance fund. There are three sources of funding: a) The enterprise pays an unemployment insurance premium at the rate of 1 percent of its total payroll pre-income-tax. The contribution will be paid monthly by the bank in which the enterprise has opened an account; b) Subsidies by the state and local governments; c) Unemployment insurance premium to be paid by the worker. Personal contributions should not exceed 0.5 percent of his standard wage, to be deducted from his paycheck. In the early days of the unemployment insurance system, this may be first introduced among workers under the contract system. As labor reform deepens gradually, we then can extend it to cover all workers in the all-personnel contract system.

3) Unemployment insurance fund is to be made up of the basic unemployment fund and supplementary insurance fund. Of the above-mentioned objects of unemployment insurance, if someone has been with an enterprise for less than five years before he loses his job, he will be paid a basic insurance benefit each month, which will not be less than the minimum relief standard set by the local civil administrative department, for a period of one year. A worker who has worked for an enterprise for five years or more will receive, in his first year of unemployment, a supplementary insurance payment of a specified amount each month depending on his length of service, in addition to the basic insurance payment. Starting in the second year, he shall only receive the basic insurance payment each month until he lands another job; the supplementary insurance benefit will no longer be paid. After an unemployed individual twice turns down a job lined up by the employment agency without a legitimate reason, he will automatically lose his eligibility to receive unemployment benefits.

4) Prefectures and municipalities shall assume overall planning for unemployment insurance. In addition, provinces and autonomous regions may concentrate part of the fund on specific cases if need be. For instance, there may be perennially money-losing enterprises in the locality which the government has long failed to close or suspend because of the lack of unemployment insurance. Now the government may draw up a plan to restructure 5 percent of those enterprises each year. While the enterprises must complete restructuring by a specified time, their workers' livelihood would be ensured by unemployment insurance benefits, the shortfall to be made up by local government subsidies. Only if we resolve to bite the bullet and overhaul these enterprises—replacing their equipment and technologically transforming them within a specified period—can we effect a radical cure and fundamentally turn money-losers into money-makers, giving them a new lease of life. No longer can we continue to use "social stability" as an excuse and keep postponing technological transformation. Simply sinking money into enterprises already on their last legs will not save them. The enterprises cannot regain their former youthful vigor. Meanwhile large sums of money are wasted year after year.

5) Gradually introduce unemployment insurance to the workers of enterprises in every ownership system. As the planned commodity economy develops, competition intensifies by the day, and risk grows, the "iron rice bowl" that has never been breakable will be gone for good. In the future the workers under any ownership system should come under the contract system and appointment system. For this reason, unemployment insurance should be made available to all the workers of collective enterprises and township and town enterprises. The actual details of such an unemployment insurance plan can be worked out based on the principles of the unemployment insurance plan for workers of state enterprises. As for private enterprises and the three kinds of enterprises that are either partially or wholly foreign-owned, they can buy unemployment insurance policy from an insurance company.

6) With unemployment insurance in place, we should create an employment competitive mechanism. Changes should be made in China's labor system so that the enterprises are able to choose their own employees freely and workers are free to choose their own jobs. Ultimately, this will bring about the dynamic optimal organization of enterprises' manpower, enabling them to determine their own mix of personnel rationally in light of their own production needs. With a competitive employment mechanism, a worker can choose his own job in accordance with his qualifications and wishes. At the same time, in a competitive environment, he will come under added pressure to master his trade, keep up with the developments in his field, become more motivated, and display a greater initiative to improve his professional skills. With enterprises and workers exercising dual choice in a supply-demand relationship, we can gradually introduce the contract system, the appointment system, and the circulation-of-qualified-personnel system for all personnel. A labor supply-demand information network, a job training network, and a job referral network should be set up to serve economic development creatively and imaginatively.

7) Unemployment insurance should remain the responsibility of the labor departments during the transitional period. When the right opportunity presents itself in the future, it can be housed in a special social insurance agency along with pension insurance and health insurance.

8) Even as we establish an unemployment insurance system and deepen its reform, we should vigorously develop self-employment. A basic solution to the unemployment problem is for the economy to grow in breadth and depth. Continue to follow the employment policy combining state-arranged employment with self-employment. Make job creation in high-unemployment areas a priority. Go all out to develop the tertiary industry. Open up employment channels in rural areas to ease the employment pressures in cities. Improve the



employment service system. Push for overseas employment and labor export. Intensify employment law-making to coordinate our effort to stabilize the employment situation and promote job creation with the deepening of labor reform.

## AGRICULTURE

### QIUSHI Notes Prosperity in 6 Jiangsu Villages

HK0605145492 Beijing QIUSHI in Chinese  
No 5, 1 Mar 92 pp 40-42

[Article by Huang Shengping (7806 0524 1627), Yang Xinwei (2799 2450 0251), and Xu Jian (7312 0313), of Wuxi City, Jiangsu, CPC Committee Propaganda Department: "What Does Development of Six 100-Million-Yuan Villages in Wuxi Indicate?"]

[Text] Since 1987, six villages with an annual output value exceeding 100 million yuan have developed in Wuxi city. These villages were Xitang of Wuxi County; Huaxi and Sanfangxiang of Jiangyin city; Jinxing in the suburban area of Wuxi; and Huangniba and Xiecun of Wuxi County. In 1990, the gross industrial and agricultural output value of these six villages were respectively 280 million, 135 million, 126 million, 145 million, 110 million, and 119 million yuan. On average, each of these villages annually delivered as much as 11 million yuan in taxes and profits to the state, with Xitang delivering the highest amount, over 20 million yuan.

The development of 100-million-yuan villages broke through the original pattern of village economy, and exerted profound influences on the rural areas social and economic development. What are the secrets of these six 100-million-yuan villages' development? What lessons may we draw from this in terms of economic and the social undertaking development? With these questions on our minds, we conducted an investigation.

#### I. Greater Economic Strength of Village-Level Collectives Is the Prerequisite for Having Steady Development in Rural Economy

Villages are the most basic grass-roots units in rural areas, and are the basis for carrying out different kinds of work, as well as the key link for achieving a modern and specialized agricultural production. To unswervingly develop and expand the village-level collective economy is the fundamental guarantee for maintaining a continuous, steady, and coordinated social and economic development in the rural areas as a whole. Following the implementation of the reform and opening up policy, these six villages devoted their efforts to developing the collective economy, be it the primary, secondary, or tertiary industry; always insisted on regarding the collective ownership as the dominant factor; and formed a new pattern in which various kinds of economic sectors existed with the collective ownership as the leading factor, so that the village-level collective economy grew with each passing day. According to the statistics, the six

villages owned fixed assets worth over 39.27 million yuan, as well as working funds worth 16 million yuan, on an average. Basically, none received loans from the state, or owed the state anything.

The rapid rise of rural enterprises and the increasing strength of the collective economy promoted the change from a unitary agricultural collective economy to a collective economy with industry as the dominant factor, thereby further showing the socialist system's remarkable advantages.

First, a stronger collective economy was favorable to realizing the construction of agriculture with the help of industry. After growing stronger, the town and township industries, which were mainly under public ownership, took up the responsibility of providing agriculture with better equipment and transforming it. Since 1984, Huaxi has invested 653,000 yuan in agriculture. Sanfangxiang invested in recent years as much as 937,000 yuan in building water conservation works and over 1 million yuan in agricultural machines. Xitang annually allocated around 500,000 yuan for agricultural work. Huangniba invested 400,000 yuan in building a high-standard multipurpose sideline production plant. Both Jinxing and Xiecun annually invested a considerable amount of funds in agriculture and vegetable growing.

Second, they paid attention to tapping the internal potential in agricultural development and boosted their capability of "making new blood" for agriculture, thereby promoting the modernization of agriculture. This was mainly manifested in the following: 1) Mechanical operation replaced the traditional manual work. In Sanfangxiang, the application of machines to agriculture was, upon inspection by relevant departments of the province and the city, 99.7 percent and ranked first in Jiangsu. 2) The scattered operation of land was replaced by operation on an appropriately large scale. In the early stage of reform, Huaxi proceeded from its realities and did not distribute its arable land to households. Now, 636 mu of the village's arable land is managed by a 12-man special farming team. Farmland management of other villages was also done on a considerable scale. 3) The operation mode of being small and complete was replaced by specialized farming with collectivized service. Sanfangxiang established a comprehensive agricultural service center consisting of 23 technical workers, offering "10 types of centralized services," such as tractor-plowing, ditching, wheat growing, irrigation, seed supply, raising seedlings, crop protection, harvesting, and threshing. 4) The traditional management style was gradually replaced by a scientific one. In recent years, leaders of the 100-million-yuan villages worked hard to use modern and scientific methods to administer agriculture, so that the old method of small-scale agricultural production no longer existed. 5) Peasants had changed their old approach of emphasizing traditional experience into a new one of emphasizing technology and knowledge. The 100-million-yuan villages had preliminarily

accomplished the transfer of surplus manpower to non-agricultural industries, and over 95 percent of their peasants were working in town and township enterprises.

Following the collective economy's growth, the 100-million-yuan villages allocated a huge sum of funds to develop public and welfare undertakings. They established a social welfare guarantee system; upheld and implemented a cooperative medical system; strengthened health care measures for women and children; implemented pension funds for retired members of cooperatives; ran welfare factories; arranged work for the aged, sick, and handicapped who could continue to work; and ran cultural, education, sports, and other facilities for peasants, so that the peasants had their livelihood guaranteed throughout their lives, and the socialist civilization and prosperity might benefit all of them.

## **II. To Uphold Common Prosperity Among Working People Is the Basis for Achieving Steady Development in the Rural Economy**

The coordinated social and economic development of 100-million-yuan villages in Wuxi rapidly raised the peasants' income level. Before 1978, the per capita annual income of these six villages was only 72 yuan; but it reached around 1,700 yuan by the end of 1990. The average annual income of each laborer was about 3,000 yuan, and that of each household was about 9,000-15,000 yuan.

While the general income level was raised, the 100-million-yuan villages upheld the practice of distribution according to work. Their basic measures were as follows:

First, they correctly handled the relations among the state, collectives, and individuals; and they were concerned about the people's long-term as well as immediate interests. Over the years, they persisted in distributing the net income in two portions. The first portion was basic rewards consisting of taxable wages, so that when the enterprise in question sustained losses, about 50 percent of the per capita of the loss amount would be deducted from this portion. The second portion was the net profit, in which 30 percent was delivered to the state, 30 percent was allocated to the enterprise's accumulation fund, and 40 percent was for distribution. Thus, this guaranteed the enterprises' accumulation fund; and ended the past situation where "distribution was made by draining the capital." Generally speaking, the labor distribution level of the peasants of 100-million-yuan villages was rather high; but this level is rather low when compared to the amount of wealth they created. Since 1985, Huaxi's collective accumulation fund grew at an annual rate of 40 percent, while the peasant's income grew at an annual rate of 15 percent. In 1988, Xitong's per capita distribution level was 2,100 yuan. But if they took the economic results of that year as the basis, the per capita income could have been doubled. This distribution policy of the 100-million-yuan villages, which guaranteed common prosperity for the state, collectives,

and individuals, helped the collective economy develop in a healthy cycle marked by self-enlivening and smooth development.

Second, they adopted the principle of distribution according to work, and distributed more to those who worked more; while guarding against the development of polarization. Their specific approach was basic wages plus bonuses. The difference in basic wages between cadres and workers was minimal; what makes wages different was the bonuses. The amount of bonuses was directly linked to the performance and economic results of the laborer in question, and the amount fluctuated within a rather wide range. For supply and marketing personnel, the rewards were linked to their performance in supply and marketing. For production workers, the rewards were linked to their output volume and value. For administrative and management staff, the rewards were linked to their responsibilities and performance. Rewards of major village and factory leaders were worked out upon assessment by their administrative leadership at the upper level according to contracts concluded at the beginning of a given year, or according to stipulations on their duties, rights, and interests. This thus realized the principle of distributing rewards to laborers according to their amount and quality of labor.

To guard against the tendency of giving excessively high bonuses, they worked out certain rigid rules, requiring that the distribution bands should be wide, while the difference should not be excessively great. Huaxi, Jinxing, and Sanfangxiang villages stipulated that the cadres' income must not be more than 100 percent of the masses' average annual income; Xitang required that such income must not be more than 150 percent. Xiegun stipulated that the factory director's annual income must not be more than 300 percent of the workers' average annual income; and a village party branch secretary's annual income must not be more than 300 percent of the average annual income of laborers of the whole village. This put both incentive and restriction mechanisms into the distribution, thereby guaranteeing the realization of common prosperity.

## **III. To Rely on Scientific and Technological Progress Is the Major Support for the Rural Economy's Steady Development**

An important guarantee for maintaining the collective economy's steady development is to apply new achievements of contemporary scientific studies and to upgrade and transform technology and equipment in a planned way to improve the competitiveness of products in terms of technology, quality, and production costs. After the village-run industries reached a certain production scale, these six villages quickly concentrated their capital and manpower on raising enterprises' technological standards and overall quality by relying on scientific and technological progress. Their major approach was: 1) They did well in technological transformation and sped up the pace of upgrading equipment. Sanfangxiang invested over 10 million yuan specially in transforming

energy facilities, facilities for water supply for industrial and daily use, and facilities for comprehensive utilization of waste gas. 2) They worked hard to develop new good-quality products to meet the market demand. Each year, over 70 percent of Jinxing's products were of superior quality. Xiecun's silk printing and dyeing general factory won its market share by undertaking new projects. The 1.6 meter wide multicolor silk fabric for umbrellas it produced was the first of its kind in China. As they preferred laborious and unusual projects, they made achievements because small factories were unable to undertake these projects, and the large ones were unwilling to do so. 3) They paid attention to using, and developing, human resources. First, they attracted intelligent personnel from other places in China through employment, part-time jobs, cooperation, and consultation. Xitang and Jinxing invested several million yuan in building hotels for specialists, engineers, and scientific and technological personnel who came to work for the villages. Huaxi also built about a dozen buildings to accommodate personnel who contributed to the village's economic development. 4) They focused on their internal resources and boldly promoted qualified personnel. The 100-million-yuan villages gained experience in industrial development over the past 10 years or so, and a number of qualified personnel who could handle major work had emerged. But the key was whether or not they were used reasonably. Jinxing was politically much concerned about the factory directors, supported their work, gave them high incomes, and decentralized the decision-making power in management to them, thereby effectively arousing their enthusiasm. Second, they spent a large amount of funds on training qualified personnel who would not leave their villages. Sanfangxiang invested 250,000 yuan in constructing a building for teaching staff and workers. Over 10,000 staff members and workers received cultural and technological training in that building. Huaxi allocated a large amount of funds to send its senior middle school graduates to study in universities. Fourth, they strengthened management, and constantly perfected the enterprises' contracted responsibility system and distribution system. Through various forms of training, they enhanced the professional and technical standards, as well as managerial capability, of managers. Furthermore, they adopted in enterprises strict measures for giving awards and punishment, as well as high standards for assessment, so that most of the enterprises were awarded management and production qualification certificates. For example, a color yarn-dyed fabric machines plant in Xitang was China's first rural enterprise awarded the production qualification certificate of pressure vessels for its high-temperature, high-pressure, yarn-dyed fabric machines.

#### **IV. To Uphold the Socialist Ideology Education Among Peasants Is a Guarantee for Maintaining Rural Economy's Steady Development**

To unremittently educate all peasants in socialist ideology, and to build up the strength of public opinion, value concepts, cultural conditions, and a social environment that tally with economic construction are the

guarantee for maintaining the rural economy's steady development. In the past decade, the 100-million-yuan villages always upheld the principle of "simultaneously grasping both socialist education and economic construction." The major measures were: They strengthened the education in patriotism and collectivism. Over the years, the 100-million-yuan villages educated all their villagers through popular means, such as evening schools for staff and workers, rotating training classes, and closed-circuit television programs. They made the villagers gradually understand that collectivism was the basic principle of socialism, and that the interests of the state and collectives were superior to those of individuals. Unremittently conducting education in socialist ideology strengthened people's understanding in upholding the socialist direction and in pursuing common prosperity for the working people, so that the practice of emphasizing ideals, ethics, civilization, and politeness became popular. Peasants, who had been chained to the land for years, required a gradual process of accommodation for modernization and institution of the commodity economy. At present, the peasants in general have a feeling of "contentment with some prosperity" and finding long-term happiness in work, opening up and creativity. By organizing the villages peasants to development of their villages from poverty to wealth, their individual maturation, to study the national and local development plans, they have gradually instilled in the village peasants a pioneering spirit that is ever discontented with their present accomplishments and a competitive consciousness in regard to commodity production. Villages such as Huaxi and Xitang gradually developed a new tendency of respecting the aged and caring for the young, living a harmonious family life, and uniting with neighbors; and they basically wiped out gambling, superstitious activities, and crimes.

#### **V. Establish a Village-level Leading Group Both Strong and Honest in Performance—This Is the Key To Leading the Peasants Unswervingly Down the Road of Socialism.**

Important factors in the vigorous economic development of the 100-million yuan villages were the strength of the leading groups, the close peasant-cadre relations, the complete harmony of the party and the masses. These villages stress the education of the cadres in honest professional conduct. Although the authority of the cadre in the village-run enterprises is not great, their power is not insignificant. Heretofore the most common complaint of the masses about the cadres was that they were divorced from production and take more than their share of everything, and use their official power for private ends. Now all of the villages have instituted measures regarding honesty in office and educate the cadres and party members in consciously implementing them. As for the occasional cadre who breaks the rules or the law, they investigate the case rigorously and handle it sternly. In the past two years, Jinxing has investigated and dealt with four cases of violation of discipline or laws by party members and cadres and handled 71

complaints made by the people in letters and during their visits regarding violation of economic laws by party members and cadres. This is supervision over party members and cadres to ensure they will observe discipline and the laws and is a practical way of educating all villages in socialist ethics, discipline, democracy, and law.

### Problems, Potential of Agriculture

92CE0536A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 6 Apr 92 p 4

[Article by Wang Hongguang (3769 1347 1639): "Agriculture: Problems, Potential, Measures"]

[Text] 1. The Current State and Level of China's Agriculture

1) The output of major crops has reached the highest levels in history. The people's living standard has largely gone beyond the subsistence level. However, there is still a wide gap between China and other nations in per unit area yield in agriculture.

In 1990 China's gross social agricultural output value reached 1,625.3 billion yuan, of which agriculture accounted for 738.2 billion grain, oil-bearing crops, sugar-bearing crops, meat, and aquatic products, output has all reached the highest levels in history. In 1990 per capita grain consumption hit 383 kilograms, the per capita daily caloric intake rose to 2,645, and daily protein intake was almost 70 grams, reaching the world's averages. This shows that overall the people's standard of living has gone beyond subsistence. On the other hand, there is still a considerable gap between the level of agricultural production in China and that in advanced nations. Take crop cultivation, for instance. China's per unit area yield exceeds the world's average by 36 percent but is only 64 percent of that of France and 70 percent of that of the former Federal Republic of Germany. China's per unit area yield in wheat is just 33.7 percent of the highest level in the world. Corresponding figures for corn, rice, and soybean are 42.9 percent, 65.4 percent, and 22.7 percent, respectively. China's per unit area yield falls short of half of the world's highest level in five out of seven major crops. Turning to animal husbandry, China's pork output not only trails that of advanced nations, but also drops below the world's average.

2) In modernization, China ranks near the middle lower end of the scale and fails to keep pace with population pressure and demand.

The level of mechanization in Chinese agriculture is low. With only 9.2 tractors per 1,000 hectares, China places 101st among 131 nations in the world. Irrigated areas account for 49.8 percent of all farmland, placing China in the 29th position. Chemical fertilizer utilization is 236.5 kilograms per hectare, higher than the world's average and that of the United States, but merely one-half of that of Japan. On a per capita basis, China's

chemical fertilizer utilization was 17 kilograms, only one-fifth of that of the United States.

In China, it takes 1.3 mu of farmland, 1.8 mu of forest, 3 mu of grassland, and 17 kilograms of chemical fertilizers to feed one person. In America, in contrast, it takes 13 mu of farmland, 20 mu of woodland, 15 mu of grassland, and 84 kilograms of chemical fertilizers to feed one person. There is a shortage of natural resources on a per capita basis in China which must be offset by a large quantity of man-made inputs. This is the only way to achieve a relatively well off standard of living for the people. We can thus see that the level of agricultural production in this country falls far short of need.

### 2. Problems in Agricultural Development in China

1) Immediate Problems. The immediate problems facing agriculture refer to the most serious constraints on agricultural production in the near term.

a) The absence of macroeconomic regulation and control tools. When output rises, growers experience difficulties selling off their products. When output drops, "wars" break out over the limited supply. This situation has not changed. Since 1984, Chinese peasants have had major difficulties finding a buyer for their crops. They had trouble unloading their grain and pigs and there was a large amount of unsold wool. This problem is essentially similar to the sluggishness affecting the entire commodity market. State-run commerce is hampered by practical difficulties in its role as the principal regulator of surpluses and shortages and the main moderator of market prices. It has been ineffective in regulating and controlling the procurement and sale of agricultural products.

b) Comprehensive productive forces have been languishing and we have long failed to ease the pressures of grain shortages, judging by the following:

i) Since 1985, comprehensive productive forces have not matched the 1984 level five years in a row. ii) Grain output in 1990 was 450 million tons, which means that we failed to reach the first goal of ascending the first stage. iii) Population has been rising faster than grain output, resulting in a widening gap between the demand for and supply of grain. iv) The increase in per capita income will put enormous pressure on the demand for grain, further widening the supply-demand gap. v) Changes in the peasants' diet have put a tremendous pressure on agricultural productive forces.

c) Deterioration in the agricultural ecology has complicated the agricultural problem. Areas affected by soil erosion have increased from 1.16 million square kilometers in the early days of liberation to 1.50 million square kilometers. River beds have been rising and reservoirs have been silting up, with increasingly disastrous results. Temperatures have been rising in the north, drought conditions have worsened, water is being polluted, and



per capita water resources have been declining by the year. All that poses a huge threat to agriculture in northern China.

d) Surplus rural manpower. By the end of this century the number of surplus workers will be a staggering 200 million, equal to the entire U.S. population. This is a social problem that cannot be overlooked as well as a major asset.

e) The gap in living standard between urban and rural residents has widened further. In 1990 the per capita living-expenses income among urban dwellers was 1,522.8 yuan, 2.4 fold that of the peasants' per capita net income, which was just 630 yuan. In 1985, the ratio was only 1.72 fold. In 1990, the per capita consumption level was 1,442 yuan among non-peasants, but 522 yuan among peasants, a 2.8-fold difference.

2) Long-Term Crisis. The principal causes of the long-term crisis in Chinese agriculture have to do with population and ecology. To begin with, the population is expanding at the rate of 17 million annually and 7 billion kilograms of grain are needed just to feed the extra mouths. Secondly, farmland has been shrinking by the year. In the three years between 1988 and 1990 alone, farmland was reduced by 24,422,000 mu, or 8.15 million mu each year. Some farmland was replanted with trees or returned to animal husbandry uses, but construction alone took up 13,999,000 mu of farmland, or 4.67 million each year.

### 3. China's Agricultural Development Potential

1) Resource Potential a) Land resource potential. China's land resource potential lies mainly in the following areas:

i) By improving 3.7 billion mu of grassland, we can increase productive forces by 30 percent; ii) 700 million mu of grassy hills and slopes in the south constitute a key base for developing sub-tropical timber and fruits. Productive forces can go up 30 percent assuming steady improvement in management and product quality. The crops can also be exported; iii) currently there are 200 million mu of uncultivated land that are suitable for agriculture. After they are brought under cultivation, there will be a net increase of 120 million mu of farmland, with an annual output of between 25 and 30 billion kilograms of grain; iv) There is an urgent need to develop and utilize 50 million mu of beaches along the coast; v) 30 million mu of inland water, with a 40 percent production potential.

b) The existing cultivation system still has 10 to 15 percent potential.

i) In terms of the way China's farmland is used today, one-harvest areas account for 33.4 percent of all cultivated land; two-harvest areas, 35.1 percent; and three-harvest areas, 31.5 percent. In theory, the planting index

can reach 198 percent. In 1990 the planting index was 155 percent, leaving a theoretical planting potential of 43 percent, of which 10 to 15 percent can be tapped in the near future and another 10 to 15 percent by the end of the century, thereby increasing sown area 140 to 210 million mu and boosting grain output 37 to 40 billion kilograms. ii) The following geographical reasons have the greatest potential for multiple cropping: 200 million mu of farmland in 14 provinces and regions in the south now lie fallow in winter. Of this at least 100 million mu can be developed by the end of the century. Ratooning rice in the south may be increased from the current 8 million mu to 35 million. In the Huang He-Huai He basin, an additional 20 million mu can be brought under two-crop cultivation combining wheat with cotton or peanut. In one-harvest areas in the north, there are still 40 million mu of farmland that lie fallow in summer. Such farmland can be put to full use by developing drought-resistant agriculture and water efficient irrigation. Together these four steps would increase sown area by over 190 million mu (including 30 million mu of ratooning rice), pushing up the planting index 10 to 15 percent.

c) There is the potential to increase per unit area yield 22 to 34 percent in the short term. In 1990 the combined per unit area yield for areas sown with grain and bean was already 262 kilograms, a historical high. However, with the sole exception of rice, China's per unit area yield in such major crops as wheat, soybean, corn, and rape is still less than one-half of that of high-yield nations. It also is less than half of the per unit area yield in large stretches of high-yield areas within China itself. This shows that the potential for raising per unit area yield is considerable.

To accurately calculate the production potential per unit area in Chinese agriculture, we did a study on 671 sample counties using average climate data from 671 meteorological stations over a 30-year period and growth data from 400 experimental units on crops, also over a three-year period. The impact of nine major factors, namely illumination, temperature, rainfall, soil, irrigation, fertilizer, technology, economy, and society on the four major crops of wheat, corn, rice, and soybean was calculated. The results show that when all elements of production other than illumination are fully satisfied, illumination has a potential of 5.3-fold. When all elements of production other than illumination and temperature are fully met, the resource of illumination and temperature has a potential of 2.5-fold. By the same token, illumination, temperature, and rainfall have a 1.8 potential. When irrigation is added, the potential is 2.2 fold. With illumination, temperature, rainfall, and soil, the potential is 1.8-fold. Considering that there are limited fertilizers and the constraining effects of technology, economy, and society, low-level investment in the near term may tap 1.22-fold potential, while high-level investment may tap 1.34 fold potential. In the long term, the potential that can be tapped may reach 1.53- to 1.69-fold.

### Commentator Links Clean Government, Economic Growth

HK0107085192 Beijing FAZHI RIBAO in Chinese  
29 May 92 p 1

[Commentator's article: "Strengthen Clean Government Building, Promote Economic Development"]

[Text] The theory and practice of socialism with Chinese characteristics tells us that the building of a clean government is an important guarantee for promoting the sound growth of economic development.

Corrupt behavior, such as corruption, bribe-taking, serious abuses of power for personal gain, and extravagance and waste, are problems that the masses bitterly hate and vehemently complain about. They are destabilizing factors that adversely affect the enthusiasm of the broad masses for production and that divert production and business activities from proceeding according to the law. By conducting anticorruption struggles, we can constantly eliminate all corruption, enabling the vast numbers of cadres to give play to the style of being honest in performing their official duties and working hard, forge a closer tie between cadres and the masses, strengthen the flesh-and-blood relationship between the party and government on the one hand and the masses on the other, arouse the people's production enthusiasm, consolidate and develop the situation marked by stability and unity, rectify the direction of production and operations, and push ahead economic construction. In line with instructions of the county party committee and county government, the supervision bureau of Hongya county in Sichuan Province, in conjunction with relevant departments, investigated and reorganized the county's cement plant, which had operated at a loss for several years in a row and was on the verge of suspending production and going bankrupt. It was found that 39 people had violated law and discipline involving over 50,000 yuan. The bureau succeeded in retrieving economic losses amounting to over 97,000 yuan and helped raise 500,000 yuan in technological transformation funds. Through screening and reorganization, the plant doubled its output and output value in the first half of 1991 over the same period of a year before, with sales income, as well as the profits and taxes, turned over to the treasury growing by 300 percent and 200 percent respectively and per-unit cost dropping by 22.1 percent. For the first time the plant made a profit. In a Jilin county, the former manager and deputy manager of a seed company accepted bribes amounting to 20,000 yuan. Because of chaotic operations and management, the enterprise was heavily in debt and incurred a deficit of 2 million yuan. As a result, complaints from the workers and staff members were heard everywhere. They said: "We sweat while the leaders reap some profit." After ascertaining the facts of the case, the county supervisory bureau relieved the former manager and deputy manager from their posts, reorganized the leading body, and worked out a dozen or so measures to make the leading body operate honestly and strengthen

operations and management. This has forged closer ties between cadres and the masses, and brought a turn for the better in business conditions. It took only a little over six months for the plant to end the deficits and make a profit of 1.5 million yuan. This shows that such ugly things as corruption and bribe-taking are major obstacles hindering economic development and that without resolutely punishing corruption it would also be difficult for economic construction to run smoothly.

Serious conduct of bureaucratism and dereliction of duty are other conspicuous manifestations of corruption. Economic losses incurred by such conduct are frequently greater than those caused by corruption, bribe-taking, and other conduct. Not infrequently, dereliction of duty causes hundreds of thousands and even millions of yuan in economic losses, and losses amounting to tens of millions and even hundreds of millions of yuan occur from time to time. By punishing serious bureaucratism and dereliction of duty, we can educate the vast numbers of cadres to faithfully discharge duties and wholeheartedly serve the people, improve work efficiency, reduce or avoid economic losses, and ensure and promote economic development.

By punishing corruption, bribe-taking, serious abuses of power for personal gain, and other conduct, we not only can seriously penalize those violating law and discipline, recover stolen money and goods, and thus retrieve economic losses for the state, but also effectively educate the vast numbers of cadres on the need to honestly perform their official duties and work conscientiously, and frighten those blinded by greed so that they will pull themselves back from the brink of the precipice and refrain from doing bad things. According to statistics, between 1988 and 1991, administrative and supervisory organs across the country recouped economic losses amounting to 1.56 billion yuan by recovering stolen money and goods. Between 1978 and 1989, the procuratorial departments and affiliated organizations across the country retrieved economic losses amounting to 3.05 billion yuan.

The unhealthy practice of arbitrarily imposing fees, fines, and quotas has infringed upon the interests of enterprises, workers and staff members, and peasants. According to statistics, the arbitrary imposition of fees accounted for 11.3 percent of realized profits and 15.1 percent of the retained profits of an enterprise. The arbitrary imposition of fees also constitutes a heavy burden on peasants. We should, by rectifying unhealthy practices in all trades and professions, rectify unhealthy practices in all trades and professions in order to boost economic growth. In 1991, after making a special effort to monitor the increasing burdens of peasants, the supervisory bureau of Daxian prefecture in Sichuan Province reduced peasants' irrational burdens by 54.82 million yuan, returned to the peasants a total of 4.02 million yuan in cash, and reduced peasant burdens to less than 5 percent of their net incomes in the previous year. In their efforts to tackle the arbitrary imposition of fees, fines, and quotas, the supervisory organs in Jiangsu Province

have abolished 1,773 items of fee collections which violate the regulations, and reduced irrational fee collection criteria in 460 items. In 1991, they reduced the burdens of enterprises and individual laborers by over 50 million yuan.

Extravagance and waste is another manifestation of corruption. Actions of extravagance and waste, such as entertaining guests and presenting gifts at public expense and marking various "festivals" and commemoration activities in a big way, must be sternly punished and controlled. This is of great significance to rectifying the style of the party and government, reducing waste, increasing capital circulation, and promoting economic growth.

Clean government building and economic construction form a dialectical unity. Economic construction is the center of all fields of endeavor; the work of punishing

corruption should be subordinated to and serve this center and should serve reform, opening up, and economic development. In this field, we have gained much experience and scored marked achievements. The development of economic construction will certainly provide a solid material base and necessary material conditions for doing a good job in building a clean government and set newer and higher demands on clean government building. Stepping up the building of a clean government is a matter of great importance facing the vast numbers of cadres and Communist Party members and an important aspect in implementing the principle of "grasping with both hands." In the entire process of reform and opening up, it is necessary to persist in the anti-corruption struggle. The more we quicken the pace of reform, opening up, and economic development, the more we should be opposed to corruption and strengthen the work of building clean government.



## NORTH REGION

### Beijing 1991 Procuratorate Work Report

92CM0328A Beijing BEIJING RIBAO in Chinese  
14 May 92 p 6

[Article by He Fangba (0149 6078 2149): "Beijing Municipal People's Procuratorate Work Report (Excerpts) Delivered on 21 April 1992 at the Fifth Meeting of the Ninth Beijing People's Congress"]

[Text] Delegates:

I will now deliver a report on the main events in the work of this city's procuratorate during 1991 and on proposals for work during 1992:

#### I. Procuratorate Work During 1991

##### 1. Procuratorate Work on Corruption and Bribery

The fight against criminal corruption and bribery is an important part of the work of procuratorial organs. During the past year, new strenuous efforts were made in the aggressive handling of cases. Procuratorial departments throughout the city heard 1,473 criminal corruption and bribery cases that violated economic laws. Following examination, 985 corruption and bribery cases involving 1,096 people were put on the docket for investigation. This included 268 major cases and 65 major offenders. Cases for the investigation of tax cheating and refusal to pay taxes, falsification of trademarks, and the diversion of official funds totaled 174 and involved 208 people. A total of 568 people were arrested in connection with the various economic crimes under investigation. A decision was made to prosecute 608 cases involving 706 people, and to dismiss 281 cases involving 314 people.

Evidence of the further intensification of the fight against corruption and bribery during the year included the following: the uncovering of a number of fairly deeply hidden criminals, and particularly new advances in the prosecution of large and important cases. The number of large cases increased 4.7 percent over 1990, and the number of important cases increased 55 percent. The public was further aroused with the result that the number of reports rose 4 percent over 1990, 528 cases being put on the docket for investigation as a result of reports from the public. This was 53.6 percent of all cases put on the docket. All units concerned showed greater alertness; consequently, procuratorial organs gained more and more vigorous support for the task of punishing corruption and bribery crimes.

The fight against corruption and bribery scored rather good political and social benefits during the year. Procuratorates and peoples courts at all levels coordinated their efforts, each convening numerous public meetings to announce the prosecution of a number of criminals

guilty of corruption and bribery. Municipal branch procuratorates and municipal intermediate level courts coordinated the convening of two large meetings to mete out punishment to a number of major embezzlers and bribe takers, including Guan Zhicheng [4619 1807 6134], party secretary of the Beijing Iron and Steel Corporation, an affiliate of the former Capital Iron and Steel Corporation. (Guan's primary crime was the acceptance of 1.418 million yuan in bribes and the embezzlement of 82,000 yuan for which the death sentence has already been carried out). Punishment was also meted out to Li Wenhua [2621 2429 5478], manager of the Beijing Municipal District's Fifth Construction Engineering Corporation. (Li's main crime was the embezzlement alone and in partnership with others of more than 630,000 yuan, himself taking more than 430,000 yuan in bribes for which he has been sentenced to death). This fully demonstrates the party's and the state's determination to punish corruption. It has aroused a general reaction both inside China and abroad, and the broad masses of people are satisfied with it. The municipal procuratorate produced a documentary video cassette titled "Legal Network" on the prosecution of the exceptionally big Guan Zhicheng bribery case. At the behest of the municipal leadership team for the building of clean government, many districts, counties, bureaus, corporations, and their subordinate units, as well as central party, government, and military units in Beijing broadcast this cassette. They unanimously reported that it is a fine teaching aid for fighting corruption and encouraging clean government.

Procuratorial organs at all levels persevered in making the task of serving economic construction and punishing corruption and bribery crimes their basic point of departure and ultimate goal, scoring rather good economic results in this regard. During the past year, they handled a total of 757 criminal cases that occurred in enterprises of various kinds. This involved 98 large- and medium-sized concerns. They also actively and steadily handled criminal corruption and bribery cases in township and town enterprises. In the fight, they adhered to a policy of "resolve, discretion, and determination to perform properly," strictly distinguishing between the criminal and the non-criminal. At the same time they made sure that their case work was subordinate to and served economic construction. Specifically, they surmounted difficulties and impediments for the recovery of 26.67 million yuan in economic losses for the state and collectives. They also actively called for "prosecution suggestions," and promoted the perfection of enterprise rules and regulations and the building of crime prevention mechanisms. They used classic case examples in conducting education about the legal system. These methods were well received by staff members and workers in the enterprises concerned, and they both provided support for and promoted smooth development of economic construction and reform work.

Although procuratorial departments devoted major efforts, overcame numerous difficulties, and worked

hard in punishing corruption and bribery, numerous shortfalls, deficiencies, and problems remain. The main problem is lack of balance. Quality of investigative work lags behind actual needs in waging the fight. Difficulties in conducting investigations, collecting evidence, and determining the nature of cases are severe at times, delaying the conclusion of cases. The time required to handle cases is overly long preventing timely and vigorous crackdowns on crime. A fairly large backlog of criminal leads also exists; and manpower, technical equipment, and money problems are very large. All this constrains work performance.

Certain achievements have been scored during the past year in the fight against corruption and bribery, but they should not be overestimated. At the present time, criminal activities involving corruption and bribery remain serious. This is manifested principally in a continued rise in the number of cases. The number of cases reached an all-time high in 1990, and the number declined only 1.7 percent in 1991. Following the "two highs" "Notice" in 1989, those who persisted in causing cases and novices in creating cases numbered approximately 60 percent of offenders put on the docket for investigation. Forty-three percent of these are new criminal elements that sprang up following the "Notice." The number of criminal cases involving large amounts has increased. During 1991, exceptionally large cases involving more than 50,000 yuan that were put on the docket for disposition numbered 52. Six of them involved between 500,000 and 1 million yuan, and seven of them involved more than 1 million yuan. The two total an 18 percent increase over 1990. Furthermore, three exceptionally large cases involving an unprecedented figure of more than 4 million yuan occurred. The number of criminals who are department level cadres has increased markedly. During 1991, 59 department level cadres, and six bureau level or higher cadres were prosecuted. This was a 55 percent increase over 1990. The crime situation of the industry-wide group is serious. In the municipal insulation materials plant, for example, 30 people from the deputy plant manager, Wei Zemin [7614 3419 3046], to warehousemen, took advantage of the easy sale of the plant's products to take bribes on sales. Fourteen of them have been charged with a criminal act. The rapacity of criminals and the losses they cause the country have become increasingly greater. An example is the Bank of China head office business department second office manager Luo Yuhai [5012 3768 3189], who misappropriated \$1.12 in public funds, \$600,000 of which cannot be recovered. (Investigation of this case has been completed, and it has been forwarded for trial.) These circumstances show the long-term and daunting nature of the fight against corruption and bribery. Procuratorial organs at all levels are determined to persist in this fight.

## 2. Criminal Procuratorial Work

Dealing heavy blows to criminal activities is another important part of the work of procuratorial departments. Procuratorial departments throughout the city have

coordinated closely with public security, judicial administrative units, and the courts to continue to deliver "heavy blows." In 1991, public security departments were authorized to arrest a total of 8,854 offenders, up 5.4 percent from 1990. This included 2,589 people involved in major and exceptionally large cases, or 29.2 percent of all suspects arrested. A total of 9,870 were brought to trial in people's courts, 2,404 of them as suspects in major and exceptionally large cases. This was 24.35 percent of the total number of cases brought to trial. Charges against 700 were dismissed. In investigation and approval of arrest, and in investigation and trial work, we adhered to a policy of attacking serious crime offenders severely and quickly, in order to ensure that the "heavy blows" fight moves along smoothly.

One feature of the "heavy blows" fight during 1991 was the targeting of prominent social order problems under central leadership of the municipal CPC committee, waging a special fight in a planned way. At the beginning of the year, a special fight was begun that focused on a crackdown on robberies and the theft of motor vehicles. In September, under central planning of the Central Social Order Comprehensive Administration Committee, the first campaign of the fight against larceny began. Procuratorial departments, together with the Public Security Bureau and the People's Court published joint notices throughout the city in the beginning of a political offensive. Between September and December, the arrest of 1,761 robbers was authorized. This was 53.9 percent of all suspects approved for arrest during the period. It included 440 involved in major or especially large cases, and 106 involved in robber gangs. Decision was made to bring 2,080 of the robbery suspects to trial. This was 52 percent of the total number of suspects brought to trial. In addition, 34 public meetings were convened in conjunction with the People's Court for the purpose of announcing the judgments handed down. A total of 259 criminals were sentenced. Procuratorial organs at all levels held 49 policy-honoring meetings for those who turned themselves in, confessed, or performed meritorious acts following publication of the "Notice," announcing the dismissal of cases according to law against 151 people. This helped fragment and undermine criminal elements. The Railroad Transportation Procuratorate Court coordinated closely with railroad public security departments and the courts to crack down on "railroad car bandits and tyrants of the road," as well as criminal gangs and major robberies that seriously threatened railroad production and transportation safety.

Procuratorial departments at all levels also conscientiously implemented NPC "Decisions on the Prohibition of Drugs, Decisions on the Punishment of Criminals Who Smuggle, Manufacture, Sell, and Disseminate Pornographic Materials, Decisions on Strict Prohibition of Prostitution," and "Decisions on the Strict Punishment of Criminals Who Abduct and Kidnap Women and Children." During the year the arrest of 66 criminals was approved under provisions of the foregoing "Decisions," and trial was set for 71 in a crackdown on criminal arrogance.

In the fight to crack down on criminals, procuratorial departments at all levels diligently discharged their duties in supervising investigations and supervising trials, emphasizing the prevention of mistakes and leaks. During the year, following diligent examination, they decided not to permit the arrest of 279 people who did not meet conditions for arrest among the cases for which public security departments had requested authority to arrest and put on trial. Public security departments withdrew cases against 339 people who could not be indicted, arrested 44 suspects, and brought 129 suspects to trial. They decided not to bring 47 to trial. In nine appeal cases against erroneous people's court judgments and rulings, peoples courts revised their decisions in five cases. Procuratorial departments were present at 117 cases in secondary trial courts in the discharge of their trial supervision functions, including the revision of cases against four people. They provided 245 recommendations for the correction of violations of the law in public security organ investigation and court sentencing. All these activities played a role in supporting the "serious crackdown" strictly within the limits of the law.

In the fight against crime, procuratorial departments at all levels became involved early in the investigation and pre-sentencing activities of public security departments in major and special cases, offering opinions about the investigation, pre-sentencing, and gathering of evidence by public security departments, thereby both shortening case disposition time and improving case handling quality to ensure severe and quick punishment of major criminals according to the law.

Procuratorial departments at all levels not only handled cases but also actively took part in the overall control of social order. They assisted units originating cases in analyzing motives, in perfecting rules and regulations, and in plugging loopholes. They provided comprehensive analysis of the motives for the character and pattern of the crimes, offered solutions and methods to prevent or reduce crime. They set up case handling units for juveniles, which handled 1990 cases of juvenile crime during the year. Focusing on juveniles, they improved education, guidance, and rehabilitation work. They continued to make return visits to check on and educate persons against whom charges had been dismissed. They initiated various form of publicity about the legal system. Procuratorial organs preliminarily regularized and systematized the overall regulation of social order through their participation.

### 3. Procuratorial Work on Law and Discipline

The examination of adherence to law and discipline is an important aspect of procuratorial departments supervision of the law. During 1991, procuratorial departments at all levels did more work in this regard. Mostly they educated procuratorial personnel in a more profound understanding of their functions, making clear that procuratorial work on law and discipline holds important significance in safeguarding the legal system, punishing

corruption, and advancing the building of clean government, and the need to increase its position in overall procuratorial work. They publicized the legal system, improved relations with organizations in related lines of work, energetically propagandized "Regulations on Standards for the Initiating of People's Procuratorate Directly Heard Cases Involving the Infringement of Citizens' Democratic Rights, Personal Rights, and Malfeasance Cases"; rallied the public to expose criminals; resolutely summarized experiences; strove to raise the quality of investigative work; strictly distinguished between the criminal and the noncriminal; and linked their handling of cases to actively serving economic construction. For the whole year, they initiated 140 law and discipline cases involving 182 people, 17 of which were important or especially big cases. The number of cases initiated was higher than in 1990. In the course of their work, they stressed disposition of the following four kinds of cases:

Criminal cases involving malfeasance on the part of judiciary personnel, initiating eight cases for investigation.

Illegal detention cases, 32 of which were initiated for investigation, including 18 case of "hostage like" illegal detention involving the forceful kidnapping and holding of hostages for ransom and demanding compensation for economic losses. In handling such cases, procuratorial departments paid attention first of all to the taking of decisive actions for the active release of the illegally detained "hostages." While prosecuting criminals involved in illegal detention, every effort was also made in civil disputes to get both parties involved in reaching a solution in order to allay conflicts and calm feelings.

Thirty-six dereliction of duty cases were placed on the docket for investigations, including 18 cases involving county department level and above cadres who caused 100,000 yuan or more in losses.

Forty-eight major responsibility accident cases were initiated for investigation.

### 4. Jail Examination, Examination of Charges and Appeals, and Civil and Administrative Litigation Examination Work

Two kinds of work were done in the examination of jails. One was an examination of the circumstances under which those jailed for reform admitted guilt, submitted to the law, and accepted reform. Most important was the severe and rapid crackdown in accordance with the law on recidivism among those who had been jailed and reformed. A total of 12 repeat criminals were approved for arrest, and 82 cases involving 178 people involving the repetition of crimes were brought to trial. The municipal public security, procuratorate, law court, and labor education committee jointly-issued "11 May 'Notice'" was put into effect. A campaign of confession and informing against offenders was launched in jails, public security and labor reform departments holding 47 meetings to mobilize people in jail for this purpose and

36 policy-honoring meetings held. Implementation of the "Notice" netted 589 criminals. Regular meetings were held in conjunction with analyses by jail educational personnel of the thinking of those serving sentences and being reformed, pointed education also given in pleading guilty and submitting to the law. In conjunction with the authorities concerned, better supervisory and examination work was done on the control, sentence reduction, and parole of criminals. Assistance was given to the units concerned in perfecting their control systems and in establishing organizations to help with education as a means of promoting the reform of criminals outside prison in order to reduce hidden dangers to society. The other kind of work done was examination of the security of penal and educational sites, and compliance with policies and the law. Jail examiners offered recommendations about guarding living quarters, conducting frequent safety inspections, and directing attention to any problems that arise, improving the control system, putting preventive security measures into effect, and playing an active role in the prevention of all kinds of accidents.

Procuratory departments throughout the city heard a total of 900 appeal cases during 1991, and handled 6,914 letters and visits of various kinds. In handling appeal cases, procuratorates at all levels persisted in the seeking of truth in facts, acting strictly according to law. They both resolutely supported previous decisions, and resolutely corrected unjust cases in order to safeguard the solemnity of the law as well as legal rights and interests of the citizenry.

In the city's 14 districts and counties, the Procuratorate set up civil administrative procuratorial departments, which began to hear civil and administrative appeal cases. This work has only just begun. It must be tested at selected sites for gradual development.

### 5. Establishment of a Procuratorate Corps

During 1991, procuratorial departments at all levels maintained a policy of strict control over examinations for the better building of a corps.

First they organized all procuratorial cadres and police to study the basic tenets of Marxism, and to immerse themselves in the study of the party's basic line, cadres and the police thereby gaining firm confidence about the building of a distinctively Chinese brand of socialism, and intensifying their understanding of class struggle and opposition to peaceful evolution.

Second, they persisted in providing training in clean and diligent government, observing strict discipline. In recent years, procuratorial departments at all levels have annually conducted an inspection of law enforcement and discipline enforcement, and have given education in observing discipline and abiding by the law. In August 1991, the municipal procuratorate convened a special procurate system political work conference for the study and planning of improved ideological and political work, the enhancement of disciplinary and supervisory work, and the study and formulation of a number of rules and

regulations for the purpose of ensuring honest handling of cases, observing discipline and abiding by the law, and honesty in the performance of official duties. At yearend, the procurate system throughout the city conducted a one-time overhaul of ideology and discipline, placing 15 cases for on the docket for investigation of procurator cadre and police violations of the law and discipline.

Third was better professional training to improve professional attributes. The municipal procuratorate drew up the Eighth Five-Year Plan training plan for procuratorate cadres, and organized cadres and police for night university and correspondence university training and self-study to pass college entrance examinations to improve the education of the corps. It ran various kinds of short term vocational training classes, and instituted a system of one-the-job training for newly assigned personnel. It organized movements for the selection of "most outstanding investigators," "crackerjack investigator," and "outstanding prosecutor" to encourage procuratorate personnel to master their profession.

### II. Ideas on 1992 Procuratorate Work

During 1992, the country will accelerate the intensification of reform and the expansion of the opening to the outside world to hasten economic construction. The main task of procuratorate organs at all levels throughout the city will be to unswerving adherence to the basic line of the Party having "one center and two base points" under leadership of the Party, and with supervision from the municipal standing committee, and support from the government. It will conscientiously put into effect the spirit of the 1991 Party Central Committee Work Conference, the Eighth Plenary Session of the 13th Party Central Committee, and the recent plenary session of the Central Committee Politburo, firmly inculcate ideology for the acceleration of reform and opening to the outside world and for service in the building of socialism, closely concentrate on the central task of socialist economic construction, take as its main goals service to large- and medium-sized state-owned enterprises, agriculture, and rural work, resolutely abide by the policy of working with both hands and both hands being firm, continue to intensify the fight to crackdown on corruption and bribery offenses and other economic crimes, continue to adhere to severe crackdowns on serious crimes and criminal activities that damage national security, and continue to improve the examination of law and discipline, going all out in the conduct of all procuratorial tasks, devoting close attention to the building of a procurate corps, and moving ahead to make the capital more stable, accelerating reform and opening to the outside world, and accelerating economic construction.

More must be done to intensify the fight against corruption and bribery. We must continue resolutely to carry out policies strictly and solemnly according to law, severely cracking down on criminal corruption and bribery. We must conscientiously summarize battle experiences of the past several years, improve our ability



to uncover crime, improve the quality of investigative work, correctly enforce policies and laws, and ensure the quality handling of cases. We must deeply analyze and study the new tendencies, the new features, and the new patterns of corruption and bribery crimes, steadily intensify the battle against them, correctly handle the relationship between crackdowns against crime and providing service, positively showing no softness in fighting crime while resolutely protecting whatever should be protected. We must place more emphasis on public reporting of criminals, instituting a system for protecting and rewarding those who render a service in reporting them. At the same time, we must concentrate attacks against the falsification of premium product trademarks, and investigate according to law criminal cases of tax evasion and refusal to pay taxes. We must use the handling of cases to uncover loopholes and problems in the economic system, the operating system, and the management system, actively offering suggestions for improvement and perfection to the departments and units concerned, as a means of guarding against and reducing corruption, bribery, and crime, thereby better serving reform and opening to the outside world, and economic construction.

We must continue to persist in rigorous crackdowns against serious criminal activities. We must make full use of our criminal procurator functions in continuing to crack down severely and quickly, but according to law, against serious criminal activities that threaten the national security and damage social order. We must further improve the quality of "serious blows," put in place additional comprehensive measures for the control of social order, and improve the supervision of investigations and the supervision of sentences, thereby creating a fine legal environment and social environment for the capital's reform and opening to the outside world, and for the building of its economy.

We must continue to improve the inspection of adherence to the law and discipline. At the present time, illegal detention—particularly illegal detention cases of the "hostage type"—and derelictions of duty that occasion great losses of assets for the country are on the rise. This must be a cause for serious concern. Procuratorial organs will take effective actions to contain this trend. At the same time, they will continue to focus on the prosecution of cases involving the extraction of confessions through torture, nepotism, and major responsibility accidents in the development of their inspection of adherence to the law and discipline in order to ensure the personal rights and the democratic rights of citizens in order to advance the building of clean government, to safeguard social stability, and to protect the national interests.

We must pay attention to the examination of jails, to the examination of charges and appeals, and to the examination of civil administrative lawsuits. In the performance of procuratorial work in jails, we must follow a conscientious policy of education and rehabilitation to bring about a civilized transformation. We must fully examine and supervise how well law is enforced in

prisons, and better examine how well the law is enforced against criminals outside prison to safeguard social order. We must conscientiously work on the examination of charges and appeals, maintaining the citizens' legal rights and interests. In the examination of civil administrative law suits, we must emphasize the running of pilot projects to gain experience that can be gradually applied.

We must continue to do well in the building of a procuratorate corps, focusing on problems existing in the building of this corps, and vigorously working on ideological and political work that builds confidence for the building of a distinctively Chinese brand of socialism, and that has clean and dedicated government as a key component. At the same time, we must intensify professional training, improve the professional skills of cadres and policy, and better perform all procuratorial duties.

Under leadership of the municipal CPC committee and the Supreme People's Procuratorate, under supervision of the municipal people's congress and its standing committee, and with the support of the municipal people's government, we must improve the leadership of procurate courts at all levels, and unify all procuratorial personnel to struggle for the fulfillment of all procuratorial tasks.

### **Beijing 1991 People's High Court Work Report**

92CM0328B Beijing BEIJING RIBAO in Chinese  
14 May 92 p 6

[Article by Liu Yunfeng (0491 0061 1496), Chief Justice, Beijing Municipal People's High Court: "Beijing People's High Court Work Report (Excerpts)—Delivered at the Fifth Meeting of the Ninth Beijing People's Congress on 21 April 1992"]

[Text] Delegates:

I will now report on the work of the municipal court during 1991 and thoughts about its work during 1992.

### **I. Work During 1991**

Guided by the Party's basic line, during 1991 people's courts at all levels throughout the city, and Beijing railroad transportation courts at two levels actively conducted trial work, completing 65,119 cases in accordance with the resolution of the fourth meeting of this congress on the people's court work report. The courts played an important role in protecting the national interest, the legal rights and interests of the citizens, juridical persons, and other organizations, in maintaining social stability in the capital, in supporting smooth conduct of reform and opening to the outside world, and in building the socialist economy, completing their tasks rather well. The main work of the courts at all levels throughout the city during 1991 was as follows:



### **1. Trying of Criminal Cases, Strictly Punishing According to Law Criminal Offenders Who Seriously Impair the Social Order and Seriously Damage the Economy**

Generally speaking, during the past year a very good situation has prevailed in the capital characterized by political stability, social tranquility, and economic development. However, the destructive activities of criminal offenders remain rather serious. Important cases frequently occur. During 1991 the courts at all levels throughout the city received a total of 7,530 new cases for trial in a 5.5 percent increase over 1990 in the number of cases received for trial. This included a 10.4 percent rise in the number of homicide, rape, robbery, and demolition cases. Not only do the destructive actions of criminal offenders infringe the personal and democratic rights of the citizens, and injure the interests of the country and the collective, but they also impair social stability, and adversely affect smooth implementation of reform and opening to the outside world and the building of the socialist economy. They must be punished according to law.

In the course of criminal trials, we will continue to adhere to a policy of dealing harshly and swiftly according to law with criminal elements who seriously impair social order through murder, arson, robbery, rape, and as "railroad car bandits and tyrants of the road," punishing them severely. We meted out stiff sentences to the leaders of criminal gangs, habitual criminals, fugitives, abettors, and other vicious criminal plotters, sentencing to death those guilty of the most heinous crimes and those who aroused the greatest popular indignation. During 1991, 4,929 criminals who seriously damaged public order were sentenced, 2,778 of them receiving five years or more imprisonment, life imprisonment, a death sentence with a two-year reprieve spent at hard labor, and the death sentence. This was 56.36 percent of the total number of cases of the same kind, and it delivered a heavy blow to criminal behavior that seriously impair the social order of the capital.

With regard to criminals who seriously damaged the economy, particularly those found guilty of corruption and taking bribes, we continued to pursue a policy of resolve, discretion, and determination to perform properly, meting out severe punishments according to law. For the entire year, a total of 3,204 criminals who damaged the economy were sentenced for embezzlement, bribe taking, larceny, and fraud. Of these, 1,241 or 38.73 percent of the total number of criminals of the same kind were sentenced to five or more years imprisonment, life imprisonment, death with a two year reprieve spent at hard labor, and death.

### **2. Trial of Civil Cases for Correct and Timely Resolution of Disputes To Protect the Legal Rights of Those Involved**

By way of correctly applying civil suit law to carry out resolutely the spirit of the national conference on civil trial work, and to strive to handle civil cases well, we

convened the Fifth Beijing Municipal Civil Trial Work Conference during mid-June 1991. At this conference, we called upon all civil judicial personnel to work hard to conclude 30,289 first appeal civil cases, and 3,393 second appeal civil cases for a correct and timely resolution of a large number of married family, housing, inheritance, liability, and indemnification disputes. This played a positive role in effectively protecting the legal rights and interests of those concerned, in preventing an intensification of conflicts, and in maintaining social order in the capital.

The civil suit law of the People's Republic of China was promulgated on 9 April 1991. By way of strictly and correctly implementing the civil suit law, not only did we train judicial personnel, but we provided some thoughts on putting the law into effect that resulted from our relating investigation and study, and the summarization of experiences to realities. The principle thoughts were *Answers to Various Questions Regarding Enforcement of Civil Suit Law, Several Ideas on the Application of Simplified Procedures, Standards for Handling Civil First Appeal Cases, and Key Points of Fact That Must be Clarified in Several Types of Civil Cases*. These thoughts played a definite role in the correct application of the law, in steadily improving case handling quality, and it further doing a good job of civil trial work.

### **3. Trial of Economic Cases for Correct and Timely Resolution of Economic Disputes To Support and Promote Economic Development**

During 1991, a total of 4,357 new cases involving first appeal economic disputes were received, down 4.1 percent from the number of cases received in 1990. Nevertheless, the number of some kinds of disputes increased, including transportation contract dispute cases, which rose 9.7 percent; processing contracting agreements and loan contract dispute cases, which rose 26 percent; and patent and copyright dispute loss compensation cases, which rose 2.5 fold.

Economic disputes are directly and closely related to the building of a socialist economy. In order better to discharge the responsibilities of people's courts, make full use of the role of trial work, correctly implement the law, and effectively serve the building of the socialist economy, we convened the Second Beijing Municipal Economic Trial Work Conference in July 1991 on the foundation of a summarization of seven years of experience. This conference emphasized study to solve problems in correct enforcement of the law together with serving large- and medium-sized state-owned enterprises to protect assets under ownership of the whole people. Study, discussion, and briefings on experiences unified thinking on this matter. Everyone realized that economic trials must be conducted strictly according to law, and must accurately apply the law. The handling of disputes, the protection of the legal rights and interests of citizens, juridical persons, and other organizations must serve reform and opening to the outside world, social stability, and the building of the economy. During the past year,

all economic trial personnel have conscientiously put into practice the spirit of the economic trial work conference, have strictly applied civil suit law, have applied supervision and encouragement procedures, and publicly announced speed-up procedures. Thanks to active efforts, a total of 5,315 civil first and second appeal cases were concluded in a 4.1 percent increase over the number of cases concluded in 1990. Disputes involving more than 970 million yuan were resolved in a 48.24 percent increase in the money amount in dispute in 1990.

**4. Trial of Administrative Cases for Correct and Timely Resolution of Administrative Disputes To Protect the Legal Rights and Interests of the Litigants, and To Safeguard, Encourage, and Spur Administrative Departments To Carry Out Their Administrative Duties According to Law**

The year 1991 was the first that the administrative suit law was applied. In order to act strictly according to law, and both actively and carefully conduct administrative trial work, we convened the First Beijing Municipal Administrative Trial Work Conference after first having summarized practical experiences. This conference asked that all administrative trial personnel resolutely implement the administrative suit law, conscientiously deal with each and every particular, and correctly handle every administrative controversy case. A total of 170 new first appeal administrative cases were received for the year in a 95.4 percent rise in the number of first appeal cases received during 1990. This included 19 suits arising out of nonacceptance of public security administrative control units adjudication, 91 suits resulting from non-acceptance of land administrative control units adjudication, and 35 suits resulting from nonacceptance of forestry, food, pharmaceutical, planning, environmental protection, weights and measures, and tax administrative control authorities' adjudication. Our trial personnel acted strictly according to law, doing their work completely and painstakingly to conclude a total of 218 first and second appeal cases for a 105.7 percent rise over 1990 in the total number of cases concluded. Of the 166 first appeal cases, 79 or 47.6 percent for which the plaintiff requested that the appeal be withdrawn were approved for withdrawal; for 38 cases, or 22.9 percent, the original decision of the administrative department was sustained; and for 18 cases, or 10.8 percent, the decision of the administrative department was overturned. Six cases, or 3.6 percent had the original decision of the administrative department modified according to law, and were forwarded to the authorities concerned.

**5. Every Effort Made To Solve "Enforcement Difficulty" Problems, for Implementation of Judgments Made**

The law provides that judgments of people's courts have the force of law, and that those bearing responsibility must implement them within a specified period of time. For various reasons, however, some judgments that have been made cannot be implemented within the specified

period of time, thereby giving rise to "enforcement difficulty" problems. Court judgments that are not put into effect not only mean that the legal rights and interests of those concerned are not effectively protected, but they also damage the solemnity of law enforcement and the majesty of national laws, thereby harming the safeguarding of legal procedures. The number of court cases decided for which judgments had not been put into effect throughout the city totaled 4,644 as of the end of 1990. This was a 25.18 percent increase over the number of such cases as of the end of 1989. We made up our mind that simultaneous with doing a good job of trial work, we would tackle this enforcement task in an effort to solve the "enforcement difficulty" problem. The support of courts at all levels and people's congresses at all levels throughout the city, and assistance from all quarters concerned, the organization of forces, and reliance on organizations, vigorous publicity, arousal of the public, and arduous and painstaking work during 1991 resulted in the conclusion of 15,484 enforcement cases. This represents a 31.05 percent increase over the number of enforcement cases settled in 1990. The number of such cases remaining at year's end were 25.22 percent fewer than at the end of 1990. This was a remarkable accomplishment in preliminary solution to the "enforcement difficulty" problem.

**6. Active Participation With Overall Regulation of Social Order in Conjunction With Trial Activity**

Simultaneous with their trial work during 1991, courts at all levels throughout the city also participated actively, dynamically, and broadly in the overall regulation of social order in conjunction with trial activity. In order to put into effect the spirit of the central government Conference on Overall Control of Social Order, they resolutely implemented NPC *Decisions On Better Overall Control of Social Order*. We organized courts at all levels throughout the city to conduct a complete major examination of participation in overall control of social order during the previous decade. We used this examination to summarize experiences, find gaps, and propose improvement measures, writing a total of 50 papers. With this as a basis, we convened the first conference on overall control of social order in which the Beijing municipal courts took part for the exchange of experiences. This conference raised the awareness of judicial personnel about the need for the courts participation in overall control of the social order. It widened their horizons, and provided impetus for further law court participation in the comprehensive control of social order. During 1991, courts at all levels throughout the city have done a lot of work in publicizing the legal system, in offering judicial advice, in mediating disputes in which no litigation was involved, in checking and instructing criminals, and in special hearings of juveniles for marked achievements. For example, when some disputes do not meet conditions for litigation but yet failure to resolve them impairs social order, quite a few courts have taken the initiative in helping the authorities concerned do work in various regards, thereby enabling

resolution of the disputes. During 1991, the courts throughout the city handled 25,342 out-of-court disputes. We also did a great deal of work in publicizing the legal system. In the course of our civil, economic, and administrative trial work, we publicized the legal system to the public using more than 28,000 cases publicly tried according to law in the course of civil, economic, and administrative trial work. In addition, 127 meetings of different sizes were convened on 5,317 cases tried in the course of criminal trial work. More than 150,000 members of the public also directly audited the criminal acts and trial decisions of 329 cases involving 565 criminals that were published. In handling cases, we made sure to analyze the reasons that each case occurred, and we provided timely oral or written judicial opinions to the parties concerned to help move the work along, improve control and plug loopholes. According to incomplete statistics, during 1991 judicial opinions were rendered on 845 cases. This played a positive role in the prevention of crime.

#### **7. Strict Regulation of the Courts, and Firm Attention to the Building of a Cadres Corps**

We believe that one important requirement for doing a good job of trial work to make the most of the functional role of the people's courts is strict regulation of the courts, close attention to the building of a cadre corps, constant improvement of the political and vocational quality of cadres, carrying forward the spirit of wholeheartedly serving the people, impartial enforcement of the law, and arduous struggle. During 1991, we did much work in strict regulation of the courts and building a cadre corps, principally as follows: first, was schooling cadres and police in the tenets of Marxism-Leninism and socialist ideology; operating two study classes for the training of 29 court and department level leadership cadres. Second was major checks on the enforcement of the law and discipline, and using these checks as a foundation for drawing up "Several Regulations on Improving Discipline and Building Clean Government," and "Methods for Managing Case Money, Litigation Fees, and Stolen Goods Used As Evidence," which were targeted on existing problems, for the step-by-step building and perfection of an international regulation mechanism. Third was the building of clean government emphasizing resistance to the "tendency toward clemency," and improvement of the trial atmosphere. Fourth was the investigation and punishment of law and discipline violation problems, 15 people having been convicted of violations of the law and discipline during the year. Various means were used to provide professional training for judicial personnel, thereby further raising the professional quality of the judicial corps.

Delegates: the foregoing is the status of court work at all levels throughout the city during 1991. Under supervision of and with support from the municipal people's congress and standing committee, under supervision and guidance of courts at all levels, and as a result of coordination with and assistance from agencies concerned, during the past year we have actively moved

ahead with our work, discharged our responsibilities rather well, and lived up to our functional role. Now, as representative of all the court cadres and policies, I want to express my heartfelt appreciation for the assistance and support of all delegates and parties concerned!

Numerous defects and shortcomings exist in our work. We have much work to do, and heavy responsibilities to bear, but the problems of insufficient numbers of cadres and police, and relatively poor material conditions have not yet been fundamentally solved. The quality of an overwhelming majority of the cases settled was good, but in a minority of cases, the facts were not clear, or the law was not applied properly, or cases were not settled in a sufficiently timely fashion. An overwhelming majority of judicial personnel are able to enforce the law impartially to serve the people, and while they have a spirit of responsibility to the people, there have been individual cases of violation of discipline or even the commission of crimes in violation of the law. We must diligently summarize the lessons of experience, take positive actions, overcome shortcomings, and improve work so as to be able to do a better job of trial work and to play a greater role in the new year.

#### **II. Ideas About Work During 1992**

Currently, the people of the whole city together with the people of the whole country are diligently studying and resolutely putting into practice the spirit of the recently convened Chinese Communist Central Committee Politburo Plenary Session. They are determined to unswervingly put into practice the basic line of the party, to accelerate the pace of reform and opening to the outside world, and to concentrate their energies on doing more to build the economy. One important requirement for ensuring that reform and opening to the outside world, and the building of a socialist economy move ahead smoothly is to safeguard social order to maintain a fine social environment. Beijing is the capital of our nation where the safeguarding of social order is particularly important. During the new year, the main tasks of the courts at all levels throughout the city will be as follows: to carry out resolutely the basic Party line, to carry out resolutely the Party's plans and policies, and to strive to do a good job of all aspects of trial work under leadership of the municipal CPC committee; to apply legal weapons correctly in cracking down hard on the destructive activities of all criminal elements; to solve correctly and in a timely fashion civil and economic disputes, and administrative controversies; to make full use of the functional role of the people's democratic dictatorship in order to safeguard, ensure, and promote the capital's social order; to serve the people, and to serve the building of a socialist economy. The key points of the job are as follows:

(1) To wage war with criminal offenders remains an important task of people's courts. We must continue to enforce a policy of strictness and speed according to law regarding criminals who commit murder, arson, robbery, and rape to the serious impairment of social order,

resolutely punishing them severely. We must resolutely enforce the NPC Standing Committee's *Decisions on the Strict Prohibition of Prostitution*, and *Decisions on Strict Punishment of Criminals Who Abduct for Sale or Kidnap Women and Children*, strictly punishing according to law criminals who violate criminal law. We must continue to punish severely criminals who practice corruption and bribery causing serious damage to the economy, and we must particularly pay close attention to the trial of big and important cases.

(2) We must continue to put into practice the spirit of the Fifth National and Beijing Municipal Civil Trial Work Conference, resolutely enforce the People's Republic of China Civil Suit Law and various other civil laws, striving to do a good job of civil trial work. We must serve the people wholeheartedly, do our work scrupulously, settle civil disputes correctly and in a timely fashion, punish civil law violations, and protect the legal rights and interests of those involved in order to promote the building of spiritual civilization and social order. We must improve the work of the people's courts, solve most civil disputes in the budding stage, and solve them at the grassroots level, fully employing the positive role of people's courts in serving agriculture and rural work during the new stage.

(3) We must continue to put into practice the spirit of the Second All-China and Beijing Municipal Economic Trial Work Conference, strictly enforce the civil suit law and the general provisions of civil law, steadily improve the quality of case work, settle disputes in a correct and timely fashion, protect the legal rights and interests of litigants, safeguard the economic order, and strive to serve reform and opening to the outside world, improvement of large- and medium-sized state-owned enterprises, and the building of a socialist economy.

(4) In the course of administrative trials, it is necessary to continue to practice the spirit of the All-China and Beijing Municipal Administrative Trial Work Conference, strictly enforce administrative suit law, and diligently enforce the "Opinions (Trial) on Various Problems in Carrying Out the 'People's Republic of China Administrative Suit Law'" handed down by the Supreme People's Court, be sure to summarize experiences, and steadily improve the quality of case work, administrative controversy cases thereby being correctly handled in order to protect the legal rights and interests of plaintiffs, and protect and supervise administrative departments' discharge of their administrative functions and powers according to law.

(5) Summarize work performed during 1991, diligently absorbing the lessons of experience, and finding a means to solve "enforcement difficulties." We must further improve court cadre and police—particularly leading cadre—understanding the importance of enforcement work, earnestly emphasize enforcement work, establish and perfect rules and regulations, replenish enforcement forces, and strive to do a good job of enforcement work. We must publicize the law in connection with the handling of cases so that both cadres and the public understand that the effective judgments of the court are duties that those responsible are duty bound to perform, and so that they willingly support enforcement work. We are determined to strive actively to do a good job to that the "enforcement difficulties" problem will be basically solved in 1992.

(6) We must continue resolutely to put into practice the policy of all around control of social order. While doing a good job of all aspects of trial work, we must do a good job of publicizing the legal system, judicial opinions, "juvenile court" and criminal examination and education work in connection with trial activities, fully using the positive role of trial work in the overall control of social order.

(7) We must continue to intensify the indoctrination of cadres and police, particularly judicial personnel, in Marxist theory the party's basic line, the revolutionary tradition and arduous struggle, and in serving the people and impartial enforcement of the law. We must organize cadres and police for further deep study of Comrade Deng Xiaoping's exposition on the building of a distinctively Chinese brand of socialism, and for study of the party's plans and policies, steadily improve the political quality of cadres and the police, improve cadre and police consciousness of the party's line, plans, and policies, serve the people wholeheartedly, serve economic construction, concentrate on existing problems, and continue to build a clean and hardworking government. We must further improve trial work style, perform strictly according to law, and impartially enforce the law. We must do a good job of running the Beijing branch of the Spare Time Law University, do a good job of running training classes, investigate and study new problems, and summarize new experiences for steady improvement of the professional quality of cadres. At the same time, we must energetically perform ideological and political work, fully arouse the enthusiasm of cadres, and make the most of cadres spirit of pioneering, creativity, and arduous struggle in order to ensure fulfillment of all tasks.



**National Defense Budget for 1992, 1993 Analyzed**  
92CM0281A Taipei HSIN HSIN WEN [THE  
JOURNALIST] in Chinese No 263, 22 Mar 92 pp 65-69

[Article by Lu Chao-lung (0712 2507 7127): "National Defense Budget Is Like Antiques—Characteristics and Confusions of the 1993 National Defense Budget"]

[Text] The 1993 national defense budget requires urgent checking. The Navy's budget has increased tremendously, making the Navy's percentage the greatest among the three armed forces. Personnel expenses and operational maintenance expenses offer opportunities for concealment. Examination will be like efforts to authenticate an antique work of art: distinguishing between the true and the false will be rather difficult.

The 1993 national defense budget has been drawn up and it will be sent to the Legislative Yuan for examination this week. In preparation for this event, the Minister of National Defense Ch'en Lu-an has tried repeated gambits in order to "convoy" next year's budget safely through difficulties. His efforts have included the publication of a white paper, convening press conferences, and winning over legislators who have interpellated him. Whether the legislators will permit Ch'en Lu-an to achieve all of its goals remains to be seen, but the scene in the Legislative Yuan is like that in Southby's art auction market. Wheeling and dealing may be anticipated.

**Great Increase in Navy Budget**

Even though dealings in antiques are for the experts, there are times when even an expert may beat his breast and stomp his feet with despair. One may spend a large sum of money only to find that he has purchased a forgery. Dealing in calligraphic or painting scrolls is also like this. The day may come when collectors also come a cropper, having purchased fakes. For the experts, every item in the national defense budget is just like an antique piece of calligraphy or painting. The problem is how to distinguish the genuine from the fake. How should one buy and sell? How can one get the best value for his money? One has to make sure of every step; otherwise, one careless move and you can take a big fall and be completely vanquished.

1. An overview of the 1993 national defense budget shows the following several features:

This year's Navy budget has increased nearly 50 percent over a year ago. (See Table 1). Those in the know point out that the Navy's several nearly three-grade-jump budget increases are attributable largely to technical cooperation with France on the "No 2 Kuanghua" plan for the building of Lafayette Class patrol ships for which contracts have already been signed and on which construction began on 1 February 1992. They are also attributable to the agreement to lease Nuo-k'o-ssu [phonetic] Class patrol boats from the United States. This has caused the rapid escalation in the budget growth.

2. The Navy ranks first in the percentage of the budget shared by the Army, Navy, and Air Force.

According to those in the know, the Navy's first place among the three armed forces in the percentage of the budget it controls (See Table 2) is not directly related to the new appointment of Liu Ho-ch'ien [0491 0735 6197], a Navy officer, as chief of the General Staff. They point out that when the 1993 budget was drawn up and budgetary estimates were firmed up, Liu Ho-ch'ien had not yet taken office. It was not until December 1992 that he became chief of the General Staff, by which time the budget had been determined, and preparations made for it to be sent by the Ministry of National Defense to the Executive Yuan for examination and verification. Those in the know point out that "even if it had any effect, it would be minuscule; the chief of the General Staff could not turn around the entire situation."

For the Navy to get the largest piece of the cake that is to be divided among the three branches of service has also been a rarity in recent years. Traditionally, the Army, the Navy, and the Air Force have carried on a behind-the-scenes struggle for a percentage of the budget. Reportedly, an Army lieutenant general currently on active duty holds a different view about the Navy having occupied the position of deputy director of the Lianwu [5114 0063] Plan deputy's office for a long period of time.

3. In the listing of budget priorities for weapons procurement and manufacture, coastal defense (control of the seas) equipment also holds first place.

**Coastal Defense Equipment Percentage Greatest**

During the past 3 years (as Table 3 and Table 4 show), thanks to the IDF [preceding acronym in English] fighter research and development project, purchase of aerial defense equipment has steadily mounted. With the ending this year of the Air Force's Alishan No. 9 Plan, its Alishan No. 10 Plan, and its procurement of F-104 fighter aircraft, these expenditures have not been included in the budget. Furthermore, the purchase of new model fighters "although highly necessary, makes it impossible to determine the military investment project that can be obtained at once." Thus extremely little is included in the budget. By contrast, the Navy's Kuanghua Plan is "all engines forward." The percentage of the budget allocated for coastal defense equipment amounts to 53 percent, a rather arresting sum.

Analysis of the ranking of the top 10 weapons and equipment procured (as shown in Table 5) shows second generation ships and the Ching-kuo fighter as holding the top two positions. As expected, the budget items for "producing the Ching-kuo fighter and the building of capabilities" shows that a production line for the IDF will be set up late in the year. The Army's armed helicopter outdoes production of the Army's M48H tank in the national defense three big plan to take third place. This suggests that armed helicopters will gradually play a major role in future defensive combat on land. This



procurement budget covers more than 1 year; the one for 1993 has been drawn up for 2 years.

We are beginning to hear of the last of the M48H tank, which holds fourth place. The entire project is scheduled for completion in 1993. Parties concerned point out that the M60A3 tank procurement and the M41 tank renovation that the Army has listed come to an end in next year's budget. Reportedly the Army has found during trials that the tanks cannot pass through the Huatung combat zone tunnels. The area in which their combat capabilities can be demonstrated is rather limited by the terrain. The Nuo-k'e-ssu Class patrol boats that are listed

for the first time this year have escalated into fifth place, but the amount of money involved is by no means large—only somewhat more than NT\$1.5 billion. It has been said that since the Navy is leasing these boats from the United States, the amount listed in the budget will remain constant during the period of the lease.

According to well-informed insiders, the Legislative Yuan will find personnel expenses and operational maintenance expenses difficult to verify when analyzing the headings listed in the national defense budget. In other words, it will be fairly difficult to differentiate the real from the fake "antique painting and calligraphy scrolls."

Table 1. National Defense Budget for 1993 and 1992 Broken Down By Branch of Service

Year	Army	Navy	Air Force	Combined Service Forces	Taiwan Garrison Command	Ministry of National Defense Joint Chiefs of Staff and Directly Subordinate Units
1993	NT\$42,387,090,000	NT\$58,881,990,000	NT\$36,980,340,000	NT\$100,001,260,000	NT\$1,478,010,000	NT\$35,101,980,000
1992	NT\$45,313,620,000	NT\$39,268,030,000	NT\$45,622,650,000	NT\$91,779,280,000	NT\$1,538,300,000	NT\$38,994,130,000
Comparison of Expenditures	NT\$2,926,530,000	+NT\$19,613,960,000	NT\$8,642,350,000	+NT\$8,221,980,000	-NT\$60,280,000	NT\$3,892,150,000

Note: The Navy's budget has increased greatly to 49.95 percent of the total. The Army's and the Air Force's budget exhibited negative growth.  
Source: Executive Yuan, Central Government Budget, National Defense Budget.

Table 2. Ministry of National Defense Budget for 1993 Broken Down By Branch of Service

Unit	1993 Budget	Percentage of Total	Explanation
Army	NT\$42,387,097,000	15.42	Includes all food, commonly used equipment spare parts, and supplies for the three armed forces
Navy	NT\$58,881,997,000	21.42	
Air Force	NT\$36,980,348,000	13.46	
Combined Service Forces	NT\$100,001,264,000	36.39	Includes pay for officers and men in the three armed services, and support, insurance, and pensions for military dependents
Taiwan Garrison Command	NT\$1,478,014,000	.54	
Ministry of National Defense Joint Chiefs of Staff and directly subordinate units	NT\$35,101,982,000	12.77	This includes Chungshan Science Institute scientific and technical research and equipment; the Intelligence Bureau of the Ministry of National Defense [IBMND], mobilization of military control zones, barracks renovation and construction, the first reserve fund, rebuilding of dependent assistance village, and the loan fund for the purchase of dwellings.
Total	NT\$274,830,702,000	100 percent	

Note: The percentage of the budget shared by the three armed forces in order of precedence is Navy, Army, and Air Force. Source: Executive Yuan, Central Government Budget

**Table 3: Figure Showing Apportionment of 1993 Budget for Weapons Procurement and Manufacture**

Sea defense, 53.56 percent (more than NT\$40.7 billion)

Air Defense, 30.85 percent (more than NT\$23.4 billion)

Ground Defense, 15.59 percent (more than NT\$11.8 billion)

Note: 1. The weapons procurement and manufacturing budget for the three branches of service totals more than NT\$76 billion.

2. The central government budget that the Executive Yuan sent to the Legislative Yuan continues to use the term "air control, sea control, and anti-landing" strategy. The national defense report changes the usage to "air defense, sea defense, and land defense."

**No Change in Troop Replacement**

Budgeted expenses are more than NT\$700 million for sub-section 2 of section 4 under item 1 in the budget, "troop replacement." After deducting the secret portion, a total of more than NT\$114 million in top secret expenditures are listed. This budget is to be used for troop training and assignments. It is the same as the amount of expenditures budgeted in 1992.

However, a person in the know pointed out that by comparing this sum of money with the amount in the just published white paper, one should be able to obtain a clue for evaluating whether the Ministry of National Defense budget has been rigorously prepared.

According to the "manpower resources" report in sub-section 1, section 2, article 3 of the national defense white paper, approximately 150,000 males are to be inducted into military service in 1993, and estimates call for the annual induction of approximately 144,000 males each year for the period 1991 through 1995. Therefore, according to the white paper report, the number of inducted males for replacement purposes should be 6,000 fewer than in 1992. Six thousand is no small number, yet the budget shows a figure identical with the one for the current year in the "troop replacement" section of the top secret budget.

For this reason, when the legislators examine the budget, the question of whether the "troop replacement" section of the top secret budget is a "fake antique" must be looked into further.

In addition, the white paper statistics show the total number of people in the armed forces, including civilian employees, for the period 1989 through 1990 to have averaged approximately 485,000, including approximately 156,000 volunteers, and 309,000 draftees. Personnel maintenance expenditures for 1993, which are more than NT\$8 billion more than in 1992, seem reasonable in a situation in which "despite a decline in the number of personnel as a result of retrenchments, benefits must be provided and payments resulting from promotions have increased." Nevertheless, well-informed insiders report that the budget that the Ministry of National Defense has sent to the Executive Yuan is an estimated budget. If detailed data on personnel in the armed forces is obtained, the number of combat personnel and logistics personnel can be separated; then "prospects will be bright" in the examination of personnel expenditures.

On the other item that is relatively difficult to check, namely operational maintenance expenses, reportedly main items such as the procurement and management of petroleum, ammunition, and spare parts offer room for further "examination."

**Table 4: Budget for Weapons Procurement and Manufacture Over the Past Three Years**

Year	Percentage		
	Air Defense (Air Control)	Maritime Defense (Control of the Sea)	Land Defense (Countering Ascent by Land)
1991	51%	37%	13%
1992	46%	34%	20%
1993	31%	53.5	15.5

**Table 5: Ranking of the Top 10 in Terms of Budget for Weapons Procurement and Manufacture For 1993.**

Units: NT\$10 Million

Rank	Item	Expenditure	Branch of Service	Explanation
1	Kuanghua Plan	3,704	Navy	Kuanghua No 1 P'ai-li [phonetic] Class ships (United States); Kuanghua No 2 Lafayette Ships (France). Construction began on 1 February 1992
2	Production of Ching-kuo fighter and building of capability	1,854	Air Force	
3	Army helicopters	667	Army	Procurement of Huey Cobra and AW-1W Helicopters
4	M48H tank production and redesign and manufacture of the M48A5's	286	Army	M60A3 tank procurement has been halted.
5	Nuo-k'o-ssu [phonetic] Class Patrol Boat Lease	150	Navy	Listed for the first time this year
6	Improvement of Hawk missile system	137	Army	
7	Hsiung 2 missile production	132	Navy	
8	Air Transport Plane	126	Air Force	
9	T'ien-chien [Sky Sword] Missile production and building of capability	61	Air Force	
10	Shenyang Plan	60	Navy	

Note: Expenditures expressed in units of NT\$10 million; figures rounded off. Source: Executive Yuan

**Table 6: Analysis of the 1993 National Defense Budget**

Units: NT\$1,000

Category	Ministry of National Defense Joint Chiefs of Staff and Directly Subordinate Units	Army General Headquarters	Navy General Headquarters	Air Force General Headquarters	Combined Service Forces General Headquarters	Taiwan Garrison Command General Headquarters	Total
Military Administration	898,239	807,766	212,932	223,327	99,019	47,865	2,289,148
Political Warfare	861,470	298,836	82,621	82,993	20,608	40,898	1,387,426
Intelligence Work	6,638,703	19,132	24,656	45,450	54,947	234,082	7,016,970
Combat Education, Training	1,283,028	635,520	281,066	238,822	20,097	66,583	2,570,116
Mobilized Personnel	508,627	756,467	10,770	6,548	1,338	649	1,284,399
Supply and Repairs	1,960,093	10,973,103	10,725,642	8,987,936	308,416	173,188	33,128,378
Equipment	905,159	16,184,874	43,994,394	23,210,815	82,289	119,398	84,496,929
Military Facilities		103,780	231,637	3,000		162,153	500,570
Logistical Support	3,991,139	784,061	104,824	157,882	856,034	39,429	5,933,369
Military Personnel	44,868	9,806,340	1,471,995	1,101,267	88,108,282	167,590	100,700,342
Engineering and Equipment	3,019,651	2,017,218	1,741,460	2,875,895	1,299,124	426,179	11,379,527
Scientific Research	8,512,290						9,512,290
Insurance and Pensions				1,413	6,026,871		6,028,284
Military Dependent Support					2,124,239		2,124,239
Non-business Revolving Fund	4,408,994				1,000,000		5,408,994
Investment Expenditures	533,921						533,921
First Reserve Fund	800,000						800,000
Grand Total	35,101,982	42,387,097	58,881,997	36,980,348	100,001,264	1,478,014	274,830,702

Note: For information on the method use to prepare the table consult 1992 National Defense Budget Three Major Structural Quotas and Percentage Table in National Defense Report. Source: Executive Yuan

### Second to the Last Item in the National Defense Budget

Someone has pointed out that in listing expenditures for gasoline, whether or not the amount consumed every year by combat vehicles, battleships, and fighter planes includes exercises, peacetime training, and routine duties is included in the budget, and whether planes are listed as having flown 100 hours or 100 sorties are possible discrepancies that are the best reason why the budget should be trimmed.

Someone has pointed out that ammunition use and consumption can be checked against the amounts in storage to see whether they have been scrupulously listed in the budget. For example, were the number of missiles that the Navy prescribes to be knocked down each year actually knocked down. If training was not carried out as had been called for, someone should look into why more missiles are being purchased. Not only have Legislative Yuan budget checks not probed such matters fully, requiring that the armed forces provide data, but the Ministry of Audit has seldom conducted such investigations.

Reportedly in drawing up expenditures for spare parts, since the armed forces have no production unit, and since the time required for spare part procurement is fairly long, whether the long-term is considered when listing items is an important point to be checked. Otherwise, by the time the parts arrive, the equipment may have been removed from service, making that part of the budget a waste.

The procurement of large model weapons and equipment reportedly extends over more than one year in the budget. How much planned construction costs, how much of the budget has been used previously, how much is to be used in the current year, and how much remains in the budget are on-going matters. Therefore, if only the budget for the coming year is checked without looking at the total amount budgeted over the years, it is impossible to gain an understanding of whether the amount in the budget is an additional amount. Persons concerned point out that the government unit concerned with verification of special budgets, the Ministry of Audit, has not yet been able to set up a designated unit to keep track of major weapons procurement plans that extend from one year to another. As a result, they can see the trees, but they cannot see the forest. Furthermore, the ability of legislators to check budgets is not as good as that of Ministry of Audit officers. Given this situation, how is it possible to exercise complete responsibility for keeping close watch on the purse on behalf of taxpayers?

The national defense budget is the second to the last item in the central government's total budget. The national defense white paper has given its principles for drawing up the budget in the future. One principle is the adoption of a careful and responsible attitude in enforcing control; another is doing everything possible to publicize the content of the budget; and a third is to improve budget work skills. In addition, there is strict control over advances in military project quality control, and caution when it is impossible to decide which weapons to be purchased immediately. In addition, there will be care in drawing up the 1993 budget, and more effort will be made to improve personnel maintenance and operational maintenance expenses. [item below appeared in a box]

### NT\$2 Billion Is Not Enough For Gasoline Money for the National Security Bureau [NSB]

*NSB director Sung Hsin-lian [1345 1800 3425] said that "the NSB budget is only NT\$2 billion." Reportedly this sum is only the overt amount. If the NSB's hidden budget were added, the figure would not be this low.*

According to the 1993 national defense budget, expenditures for intelligence operations come to more than NT\$7.16 billion. It has been learned that broken down by category, the main expenditures are of three kinds: more than NT\$670 million for military intelligence, NT\$280 million for public order intelligence; and more than NT\$5.94 billion for mainland operations. Most of the expenditures for public order intelligence are by the Taiwan Garrison Command General Headquarters and the Military Police Headquarters. Most of the expenditure for military intelligence are by the IBMND, and most of mainland intelligence expenditures are made by NSB. After deducting the only "NT\$2 billion NSB budget from the more than NT\$7 billion for intelligence work," NT\$5 billion remains. If the NT\$280 million for public order intelligence is also deducted, that leaves more than NT\$4.7 billion. So does the IBMND swallow up NT\$4.7 billion in a year? This is more than three times the Taiwan Garrison Command General Headquarters budget!

Those concerned say that "mainland operations" expenditures come to more than NT\$5.9 billion, most of it in the NSB budget. When considering that other ministries ask the NSB to do their budgets as well, "even though the actual data are not very clear," the amount is definitely more than NT\$2 billion. If the NSB's budget were limited to only NT\$2 billion, using a "joke" that Sung Hsin-lian made when interviewed, we fear this would not be enough for the gasoline money for the NSB.

NTIS  
ATTN PROCESS 103  
5285 PORT ROYAL RD  
SPRINGFIELD VA

2

22161

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal names and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Central Eurasia, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.